Opportunities in the Russian Fruit Market

A Report for SATI and NAMC

promar International

Table of Contents

Contents	Page
Management Summary	3
Introduction	9
Russia	12
Fruit Industry	18
Key Products	25
Supply Chains	45
Competitor Analysis	58
South Africa	64
Strategy Development	71

Management Summary

Market Overview

Russia's population is large, but declining.

With a population of 143 million, Russia is the 7th most populous country in the world. Unlike China and other growth markets, the Russian population is expected to decline to 141 million by 2010.

The economy is growing steadily. However, income distribution is an issue.

Since 1999 the Russian economy has grown steadily at around 6.5% GDP growth. Most of this growth is fuelled by increased energy production and increasing global prices for oil & gas. While average consumer incomes have risen in Russia, much of the wealth from the recent boom is still controlled by a very small number of well-connected businessmen or oligarchs.

Fruit consumption at around 60kg/capita is below other countries.

Fruit is a traditional part of the Russian diet. Russian fruit consumption was around 61kgs/capita in 2005 which is around 40% higher than the 38kg/capita in 2000. However, consumption is still significantly lower than other European countries.

Russia is a major producer of fruit.

Despite the climate, Russia is a major fruit grower, producing over 5million tonnes in 2005. Over the last 5 years production has increased at around 4%/year. Russia's major fruit types are apples & pears (44%), watermelons (18%) other fruit, such as berries etc (18%) and stone fruit (14%).

Imports continue to grow.

Russia's fruit imports have soared in recent years. Imports are the fastest growing part of the fruit market, with a CAGR of 15% since 2000.

Imports both compliment and add to Russian fruit production.

In 2005, the largest fruit import category was apples with approx. 1,000,000mt or 30% of total consumption, followed by citrus fruit, 940,000mt and bananas 850,000mt, both of which accounted for almost 100% of total consumption.

Russia remains a highly price focussed market.

Despite growing fruit imports, Russia is a highly price focussed market. Imported fruit remains the preserve of urban consumers, and the majority of these consumers display significant price sensitivity.

Management Summary

Key Products

Apples	Apples are the number one fruit in the Russian market. Apples can be divided into two categories, low-cost, local (Polish/Ukrainian etc) red apples and imported modern apple varieties like Golden Delicious etc. Russia imports apples from all over the world, based on quality and price.
Citrus	All citrus products consumed in Russia are imported. Oranges dominate the market (42% share in 2005), although mandarins are extremely popular, particularly around Christmas time.
Grapes	Around 50% of total grape consumption is from locally produced grapes. Grape consumption is highly seasonal occurring between September - October as cheap Turkish or Uzbek grapes flood the market. Uzbek grapes are reported to be available in the market in season for less than half the price of grapes from Argentina.
Stone fruit	Imports of Stone fruit have grown at over 20% pa in the last 5 years. The majority of these imports are from low cost Northern Hemisphere exporters such as Turkey and Uzbekistan. Stone fruit consumption is seen as a summer event for most consumers. The relatively high costs of Southern hemisphere fruit as well as the out of season image for consumers limits exports to Russia.
Russian consumers knowledge of fruit products is very basic.	In the past, fruit varieties in Russia were generally unknown at a consumer level. For instance, urban consumers are just beginning to recognise apple varieties such as Golden Delicious and Red Chief etc. However, many consumers still regard apples simplistically as either red ones or green ones! Retailers can often enhance the lack of awareness by selling different varieties at the same price. It is not uncommon to see a range of red, white and seedless grapes all sold at the same per kg price.
Consumer and trade specifications are based on basic quality parameters and price.	Consumers' fruit purchase criteria are based on price and visual attributes such as large size, regular shape and unblemished skins etc. These simplistic consumer demands are reflected in trade demands for fruit, where price and and basic measures of fruit quality are the main criteria. Russian consumers currently show little interest in issues such as quality assurance, residues, fair-trade, organic or any of the other topics that other European consumers are concerned about.

Management Summary

Supply Chain

Russian fruit imports are dominated by 3 major fruit importers.	The Russian fruit import market is dominated by 3 major commercially based fruit importing businesses (Sorus, JFC and Sunway) although significant volumes of fruit are still imported by specialist importing agents and other businesses.
Russia's fruit distribution is managed by a variety of companies and business formats.	Distribution of fruit in Russia is made up of a diverse mix of businesses varying from legitimate western style to traditional 'ethnic' based distribution empires. The variation in the supply chain formats contributes to volatile pricing as not all companies pay taxes, duties etc. While all formats are vying for market share, most parties agree the legitimate, commercial companies will dominate the market.
The Russian retail market is in a state of change as modern retailers expand.	The Russian retail market is also in a state of flux as Russian and foreign investors pour money into modern retail formats such as supermarkets and convenience stores. In 2005, modern retail formats accounted for 23% of retail sales and are predicted to account for 40% by 2010.
Most new retailers are highly price focussed although less price focussed stores are emerging.	Most of the new retailers in Russia have opened price focused supermarkets or discount stores. Despite the price focus, there are a number of less price focussed retailers emerging such as Azbuka Vkusa and the 5 Star stores of the Sedmoi Kontinent chain.
Purchasing systems of retailers are designed to capture low prices.	The price focus of most Russian consumers and the volatile nature of pricing in the market means that almost all supermarkets buy their fruit via electronic tender. Retailers argue this system is essential to allow them to access competitively priced fruit without being locked into particular suppliers. Category management is still a long way off in the Russian market.
Importers/distributors are a key influencer in the supply chain.	In the short term, legitimate, commercially based importers and distributors are likely to be key players in the growing retail market. However, in the longer term, the major retailers are likely to be the dominant power in the market.
The Russian foodservice market is growing but is a minor user of fruit.	While the foodservice market in Russia is growing, the sector is likely to remain too small and fragmented to provide any opportunities for fruit exporters.

Competitive Analysis

Russia is a rising star in the world of fruit importing.	Russia's rapid fruit import growth over recent years has attracted the attention of fruit exporters all over the world. With its limited product specifications and high focus on price, Russia is a market that can be supplied by almost any exporter in the world.
Chile and Argentina are South Africa's major competitors.	Although Russia imports fruit from over 53 countries, South Africa's direct competitors in the market are Chile and Argentina. Chile is a major competitor for grapes while Argentina is major competitor for apples & pears and citrus. Both Argentina and Chile provide flexible credit terms to Russian buyers and are are generally seen as being 'committed' to the Russian market.
Argentina is best known for its competitive pricing.	Argentina is the largest Southern Hemisphere supplier of fruit into Russia. Argentina is a well known, supplier in Russia. Argentine fruit is often recognised as being of lower quality than South Africa and Chile products. However, suppliers' low prices mean that Argentine fruit is often regarded as the best for Russia in terms of a price - quality trade off.
Chilean product quality has improved making Chile a competitive supplier.	Chile is a major supplier of grapes to Russia (almost 10% market share) and to a lesser extent apples. Russian buyers believe Chilean fruit has made major improvements in product in quality in recent years while prices have remained the same.
South African fruit is recognised as being high quality.	South African fruit is well known in the market at trade level and is widely recognised as being high quality. "South Africa grapes are the Mercedes, Egypt are the Kia" was one typical comment.
However, prices have increased in recent years.	Prices for South African fruit have increased significantly in recent years, especially relative to Chilean and Argentine products. Although the price increases are seen as a result of changing exchange rates, Russian buyers tend to believe that South Africans have not done enough to ensure their products remain competitive in the market place.
South African suppliers are seen as being less committed to the Russian market.	Many importers felt that while there were a number of good South African exporters, the majority of exporters did not really understand or trust the Russian market. South African exporters were often perceived as being stand-offish and not really committed to the market. Export volumes are declining and expected by the trade to decline further (unless South Africa wishes to change the situation).

South Africa Strategy

South Africa's competitive position in Russia has declined in recent years.

South Africa's increasing exchange rate combined with quality improvements from major competitors like Chile and and Argentine, mean that South Africa's competitive position in the Russian market has declined in the last 3 years. Unless there are changes from the South African suppliers, South Africa's share of the Russian market is likely to continue to decline.

Strategic options for South Africa.

There are three core strategic options available to South Africa:

Withdraw from the market - Improve Competitiveness - Differentiate/identify a niche

Long term value and potential of the Russian market.

While all of the above are valid options, 'differentiate/identify a niche is deemed to be the most appropriate given the expected long term value of the Russian market and the short term difficulties of 'improving competitiveness' (without simply dropping prices to match those of competitors).

Differentiating/identifying a niche provides three sub-strategies.

Within the 'differentiate/identify a niche' option there are three sub strategies that focus on supplying commodity products to niche markets or differentiated products to mass or niche markets.

Commodity products to niche markets.

While the majority of the Russian market is highly price focussed, there are a number of small, but growing niche segments that are more focussed on quality than price. These markets provide an opportunity for South African exporters to target with differentiated and or high quality fruit products.

Differentiated products to mass or niche markets.

At present, South Africa supplies the same products as suppliers from Chile and Argentina. Differentiating South African fruit with new varieties will be difficult given major retail buyers preference for standard fruit types. However, the seasonal basis of fruit supply and changing nature of the market may provide opportunities for South Africa to differentiate through supply timings or windows.

Capturing any opportunities requires a proactive approach from South Africa.

Maximising any of these niche options will require South African exporters to take the initiative and to invest time and resources to fully engage with the Russian market including: Building relationships and trust with selected importers; Increasing understanding of selected retailers and their consumer needs; Providing marketing and other investment to promote South African products.

South Africa - Industry Role

The onus for developing the Russian market is on the South African industry.	The Russian market is happy to buy South African fruit so long as it meets price and quality expectations. However, the Russian market does not need South African fruit, Development of the market is very much up to the South African industry.
The Russian market has long term strategic potential for South Africa.	The feedback from our research suggests that the South African industry increasingly views the Russian market as providing a high risk and low return environment. However, from a long term or strategic perspective, the market should provide opportunities for South Africa as a key part of a diversified portfolio of export markets.
Building South Africa's share and presence in the Russian market requires a two pronged approach.	The short-term issues of price competitiveness and perceptions of market risk are major hurdles to building market share. At an industry level the challenge is therefore to promote South Africa products and suppliers to the Russian market, as well as promoting the long-term benefits of the Russian market to the South African industry.
Promotion of the Russian market to the South African industry.	Increasing the South African industry's awareness and understanding of the Russian market could be achieved through dissemination of market info and research as well as focussed industry visits/missions to Russia. Strengthening the South African industry's ability to compete in the market could be enhanced through support for technical and commercial exchanges with Russian industry as well as support for general initiatives aimed at increasing the overall competitiveness of the South African fruit industry.
Promotion of South Africa in the Russian market.	Any promotion of the South African industry in Russia needs to be undertaken on a focussed and targeted basis. Activities could include: Highlighting the capabilities and strengths of the South African industry to selected Russian retailers and importers via technical seminars and similar events in Russia. Building relationships with selected importers and retailers by facilitating importer/retailer visits to South Africa for commercial exchanges and or structured education/promotion events.

Introduction:

- Background
- Key Research Areas
- Methodology

promar International

Background

- This report was produced by Promar International in response to a request from the South African Table Grape Industry [SATI] and the South African National Agricultural Marketing Council [NAMC].
- The aim of this research is to provide a comprehensive overview of the Russian fruit market and the opportunities for South African fruit in the market.
- The report covers:
  - grapes
  - top fruit/pomme fruit
  - citrus
  - stonefruit

Key Research Areas

Specifically, the research aims to cover:

- Market size for SA produce, domestic produce, imported produce varietal trends and preferences.
- Key suppliers of fruit to the market, and their respective performance over the last 5 years.
  - EU based suppliers
  - Eastern European based suppliers
  - Third country (i.e. Australia, NZ, the US, Chile and others)
- The key channels of distribution (i.e. wholesale, direct to retail, foodservice etc.) and their relative importance.
- Price formation at the level of CIF, wholesale and at the Point of Sale (POS).
- Key consumption trends in the Russian market.
- Segmentation of consumer types, by age and location.
- The reputation of SA as a supplier vis a vis the competition over the last 5 years - areas of improvement - areas that still need attention
- Areas of market threat and opportunity.
- The promotional culture, and how this impacts on SA's opportunity in the market.
- Development of a SWOT type analysis.
- Recommendations for a follow up trade mission later on in July 2006.
- The implications for South Africa over the following periods: - 0/12 months - 1/3 years - 3/5 years.

Methodology

- The majority of data presented in the report was gained through face to face interviews with a range of participants in the Russian fruit market.
- Interviews were conducted with a number of retailers, importers and distributors in both Moscow and St Petersburg.
- The interviews were conducted by Promar International staff during June 2006.
- While most of the participants we met with spoke freely, the information from these interviews has been presented in an anonymous format to maintain respondents' confidentiality.
- Statistical data was collated from a range of sources as referenced.
- The fruit industry data presented in the report was collated from official Russian Government statistics.
- Accurate data on the Russian market tends to be difficult to obtain. The statistics provided in this report are thought to represent the most accurate date set available.

Russia:

- Population
- Economy
- Income & Expenditure
- Fruit Consumption

promar International

Russia - Population

Population

- Russia is the 7th most populous country in the World.
- Russia's population is currently estimated at around 143 million. However, as with other former USSR countries, the Russian population is ageing and the birth rate is below the natural replacement level. The current population growth rate is around -0.5%. The EIU estimates that the Russian population will decrease to around 141 million by 2010.

Russian Population & Labour Force Trends

	2001	2002	2003	2004	2005	2010 (f)
Population (m)	146	145	145	144	143	141
Labour Force (m)	71	72	72	73	74	74

Source: Economist Intelligence Unit, Viewswire

- While much of Russia's landmass is sparsely populated, the larger cities continue to grow. 16 cities now officially have over 1 million inhabitants. Government statistics indicate these cities account for almost 30 million people or around 20% of the Russian population. However, unofficial estimates suggest that these cities are home to almost 40 million people, or nearly 30% of the population.
- Despite the vast size of the country, Moscow still acts as the commercial and distribution hub. The central role of Moscow in the Russian economy means that it continues to attract new inhabitants.

Russia's 5 Largest Cities

City	Official Population (m)	Estimated Population (m)	Official Growth 1979 - 2002
Moscow	10.2	16	38%
St Petersburg	4.2	4.5	5%
Novosibirsk	1.4	1.5	8%
Nizny Novgorod	1.3	1.3	0%
Ekaterinburg	1.3	1.5	8%
Total	18.4	24.8	17%

The importance of Moscow in the Russian market should not be overlooked. The majority of Russia's middle class are located in the city and the Moscow is very much the driver of the Russian economy and trends. A common Russian expression states that "What happens in Moscow today will occur in St Petersburg tomorrow and the regions the day after that"!

Russia - Economy

Economy

- Since the financial crisis of 1998/99, Russia has enjoyed a steady period of growth economic with an average GDP growth rate of 6.5% between 1999 and 2004. As a comparison, over the same period most Western European neighbours have struggled to achieve growth rates of more than 1 or 2%.
- As well as positive economic growth the Government's fiscal policies have reduced inflation with consumer price inflation steadily falling from around 20% in 2000 to near 11% in 2005.
- Consumer incomes have also risen steadily with many Russians now able to afford a wide range of food products and other consumer goods.

Key Russian Economic Indicators

	2001	2002	2003	2004	2005	2010
Real GDP growth %	5.1	4.7	7.3	7.2	6.4	4.5
GDP US$ / capita (ppp)	7,700	8,200	9,000	9,800	10,800	16,000
Inflation %	19	15	12	12	11	7

Source: Economist Intelligence Unit, Viewswire

- Retail trade and services have also shown impressive growth increasing from 36% of GDP in 1991 to around 55% in 2002.
- Despite the positive stories, the Russian economy is still relatively fragile:
- Energy production dominates and the economy is heavily dependent on natural resources. In 2005 almost 65% of Russia's exports were made up of oil, fuel and gas.
- In contrast, the manufacture of high tech industrial or consumer goods is also relatively low in Russia. Light industry currently accounts for less than 5% of total industrial output.
- Small business, which are significant economic drivers in other developing economies, are notably weak in Russia. New businesses are often crowded out by existing larger firms or overwhelmed by Russian Government bureaucracy, regulation and taxes.
- The Russian economy also has large areas of grey business. According to the Russian statistics agency (GosKomStat), the informal economy accounts for around 25% of Russia's GDP. Feedback from our interviews suggest that in the fruit business, the informal economy may account for up to 35% of all business.

While the Russian market still has many economic issues to work out, many analysts believe that as long as global oil and gas prices remain high, the Russian economy will continue to grow and develop.

Russia - Income & Expenditure

Income & Expenditure

- While the overall Russian economy is growing rapidly, not all sectors of the economy are benefiting from this boom. As one of the major fruit importers stated *"the issue is not money, as Russia is awash with money - it is the distribution that is the issue."*
- In the last 10 years small numbers of well-connected businessmen, so called 'oligarchs', have developed massive fortunes from Russia's recent market liberalisation and growth. However, these people make up less than 1% of the total population.
- The majority of Russians are still very poor and have limited ability to purchase exotic foods such as imported fruit.
- The bulk of Russia's emerging middle class are located in cities such as Moscow and St Petersburg where incomes are higher than the national average.

Average Monthly Household Income (US$)

	2000	2001	2002	2003	2004	2005
Russian Federation	82	110	142	184	228	294
Moscow	332	433	533	601	750	913

Source: Rosstat, Oct 2005.

- For most Russians, food purchases still account for almost 40% of total household expenditure. Although this figure has decreased over the last 10 years it is still significantly higher than developed European countries (In France and Germany food and beverage purchases account for less than 20% of average consumers total expenditure.)

Russian Household Expenditure - 1995 - 2015 (bn Roubles)

	1995	2000	2005	2010	2015
Food & Beverage	340	1,260	3,030	3,780	3,620
Total household	730	3,120	8,020	10,170	10,850
F&B % of Total expenditure	47%	40%	38%	37%	33%

Source: Euromonitor, Consumer Lifestyles Databook 2003

Russian consumers' low income levels and relatively high expenditure on food items explains many consumers' focus on price as their key purchasing criteria. One of the key drivers of the imported fruit demand will be the speed at which Russia's low - middle income groups increase their incomes and spending power.

Russia - Fruit Consumption

Fruit Consumption

- Fruit is traditionally part of the Russian diet. Many Russians have access to gardens where apples and summer fruit such as berries and stone fruit are available at specific times of the year. (Even city based Russians tend to have access to a garden, as most families have a holiday home, or 'Dacha', in the country. These Dachas generally have small plots for growing fruit and vegetables).
- However, purchased fruit essentially belongs to the food basket of Russia's urban residents.
- While Russia's fruit consumption has increased from 38 to 61 kgs/capita in recent years it is still significantly behind developed markets such as the USA where fruit consumption is around 100 kgs/capita or Italy where fruit consumption is a 180 kg/capita.
- For most Russians, fruit consumption is a seasonal activity. Largely driven by price and availability (including from home gardens), Russians eat around 60% of their annual fruit intake in summer and 40% in winter.
- Fresh berries, stone fruit, melons, and pears are frequently eaten in summer, while oranges and mandarines are typically seen as winter fruit. Bananas, apples and and lemons tend to be eaten all year round.
- According to a recent AC Neilsen study, apples, banana and oranges are the three most preffered fruits in Russia. Pears, grapes and peaches are the next three most preferred fruits.
- The AC Nielsen study fruit also identified that fruit was ranked second among the products most frequently eaten at home (mentioned by 89% of respondents), and first among those consumed outdoors (49% of respondents said they eat fruit out-of-home).
- However, fruit is not normally perceived as a component of main meals (breakfast, lunch or dinner). At home, fruit is most frequently a snack between the main meals (68% of urban Russians).

Russia - Fruit Consumption

Price Sensitivity

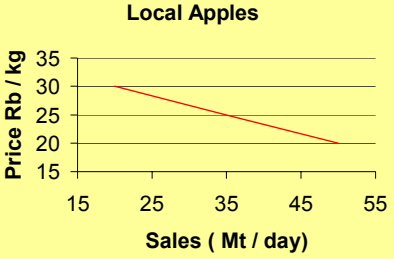
- The Russian market is a highly price focussed market. One of the major international retailers operating in Russia highlighted consumers' price sensitivity through the following examples.

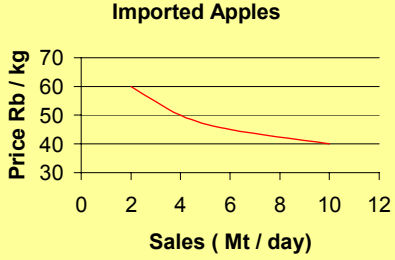
Local apples vs imported apples

- Store customers would purchase up to 50 tonnes/day of cheap local apples vs a maximum of 10 tonnes/day for higher priced imported apples such as Granny Smith or Golden Delicious.

Price vs sales volume

- Within the two categories of apples, price was also a major determinant of sales volume.





- For local apples Rb30/kg was the upper limit Any price decrease below Rb30 would see dramatic increases in sales.
- For imported apples Rb60/kg was the upper limit. As the prices decreased towards Rb40/kg, sales volumes would increase significantly.

Fruit Industry:

- Overview
- Domestic Production
- Imports

Fruit Industry - Overview

Overview

- Promar analysis indicates that the Russian fruit market has grown steadily from 5,500,000 tonnes in 2000 to around 8,750,000 tonnes in 2005. Overall the market has grown at around 8% (CAGR) over the same period.
- Most of the companies we spoke to in the course of this research agreed that the market was certainly growing, but were unsure of the actual growth rates.
- Growth in fruit production and consumption is driven by a number of factors, including increasing consumer awareness of the nutritional benefits of fruit.
- However, the major driver of fruit increased fruit consumption is increasing consumer incomes and a growing ability of consumers to purchase larger volumes and range of fruit.
- Fruit consumption has become mainstream, with fruit like bananas in particular, becoming a mass market product.

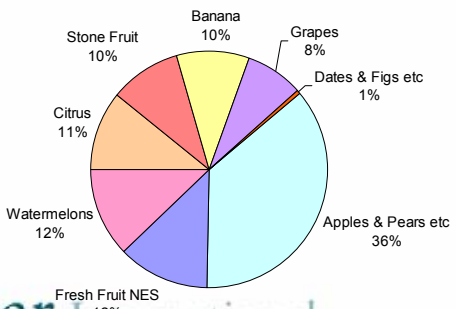
Source: Russian Government Statistics / Promar

Fruit Industry - Overview

Major Products

- As with most fruit markets, apples, bananas and citrus are the major items. However, in Russia, apples are by far and away the most important category, accounting for over 35% of total consumption.
- Imported products such as bananas are also popular. Bananas account for around 10% total fruit consumption and are growing steadily.
- Citrus products,which are also imported, are something of a traditional item from Soviet days. Citrus products are typically consumed by Russians in winter for their taste, but also vitamin C content.
- Watermelons are another traditional Soviet era fruit based on very cheap supplies from former USSR countries. According to Trade sources, the arrival of watermelons in late summer signifies the end of summer fruit sales as consumers switch to low cost watermelon.

Russian Fruit Market by Major Product Type - 2005
(Total volume 8,750,000 Mt)

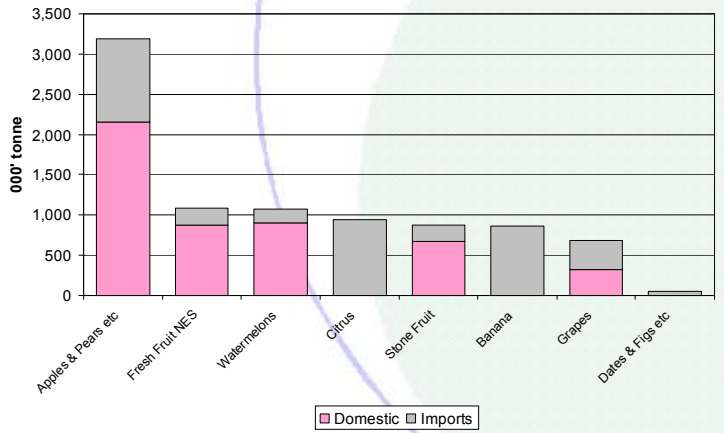


Source: Russian Government Statistics / Promar

Domestic vs Imports

- Despite Russia's cold climate, the country produces relatively large volumes of many fruit products.
- For most fruit products, imports form a 'top up' to the Russian production and a consistent supply in the off-season. Most Russian produced fruits are available on the local market in large volumes and very low prices when in season.
- The notable exceptions to this are for citrus products and bananas which are not grown in Russia.

Russian Fruit Supply Sources by Major Product - 2005

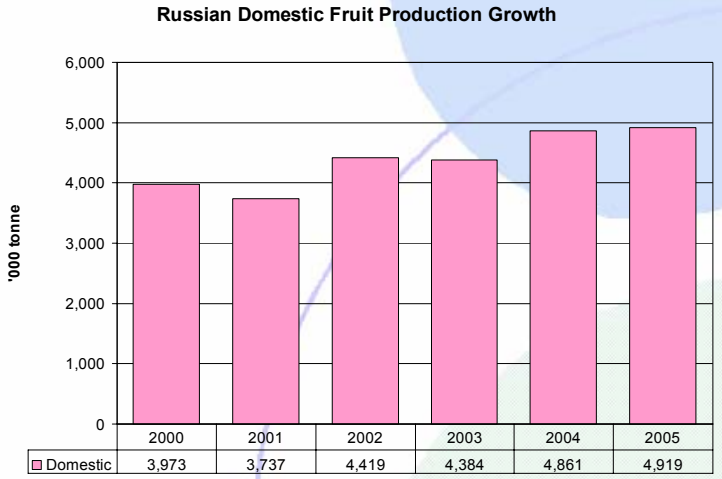


Source: Russian Government Statistics / Promar

Fruit Industry - Domestic Production

Overview

- In 2005, Russia produced almost 5,000,000 tonnes of fruit. The majority of commercial fruit production in Russia occurs in the south of Russia around the Krasnodar region.
- As well as commercial fruit production many Russians own small plots of land that are capable of growing fruit. Apples, stone fruit and berries are the major products produced on own home grown plots. These plots account for a substantial portion of Russian fruit consumption although the percentage is declining as Russia's economy and consumer spending power increases.
- In many instances the quality of local commercially produced fruit is below that of imported fruit. Russian fruit varieties tend to be dominated by local versions rather than successful international cultivars. Any Western varieties in Russia tend to be old traditional products such as Granny Smith apples rather than modern varieties.
- Poor harvesting equipment and systems combined with limited post harvest infrastructure further contributes to low yields and the overall low quality of Russian fruit when it finally reaches the market.
- While the overall fruit market in Russia has grown at around 8% over the last 5 years, domestic production has grown at a slower pace. According to FAO data, Russian domestic fruit production has grown from around 3,900,000 tonnes in 2000 to 4,900,000 tonnes in 2005. This shows an overall CAGR of 4%.



Source: Russian Government Statistics / Promar

Fruit Industry - Domestic Production

Major Products

- With production of over 2,000,000 tonnes, apples are the largest category of fruit produced in Russia. Most Russian apples are local red varieties.
- Russia is also a major watermelon grower with 900,000 tonnes produced in 2005. Watermelon is very popular as it is sold for as low as Rb3 - 5 /kg during the peak season. (US c12 - 20 /kg).
- In summer, Russia produces a range of berries from commercial as well as home garden plots. Currants, plums and sour cherries are also major fruit items.
- Russia is also a large producer of grapes with over 325,000 tonnes of local seedless varieties produced in 2005.

Russian Fruit Production Trends (000' Mt)

	2000	2001	2002	2003	2004	2005	CAGR
Apples & Pears	1,925	1,690	2,045	1,767	2,132	2,154	2%
Watermelons	572	662	857	932	920	900	8%
Fresh Fruit NES	681	690	782	770	857	873	4%
Stone Fruit	516	460	518	565	633	667	4%
Grapes	279	235	217	348	318	325	3%
TOTAL	3,973	3,737	4,419	4,384	4,861	4,919	4%

Source: FAO

Encouraging Domestic Production

- The rapid increase in Russian fruit imports over the last 5 years has prompted Russian Government officials to look at options for increasing 'local' production of fruit.
- A number of respondents we spoke to mentioned various Russian Government initiatives to increase the fruit trade with former USSR countries. Uzbekistan is one example where the Government is supporting trade missions for fruit importers to build relationships and trade with Uzbek growers.
- The Russian Government is also reported to be active in supporting Russian growers to increase their fruit production and improve the post harvest handling of Russian fruit.
- Given the limits of the Russian winter, most of the trade believe that there are limited options for increasing Russian fruit production and that there will always be demand for imported products in Russia, particularly citrus and tropical fruit that cannot be grown economically.

Fruit Industry - Imports

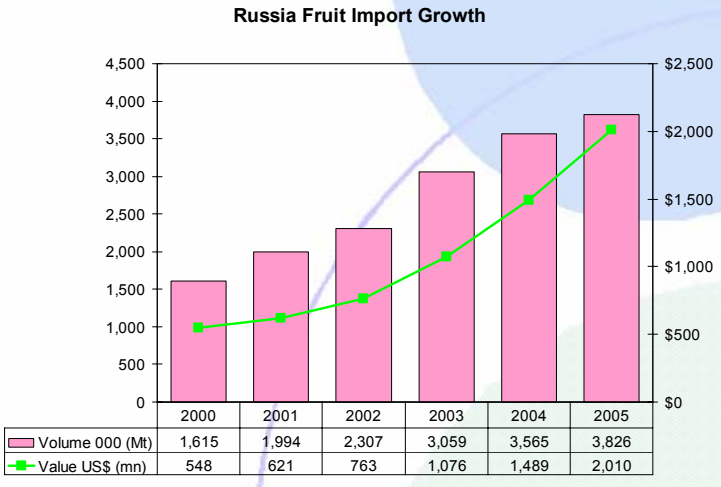
Overview

- Russia has always been a fruit importer. In Soviet times fruit was shipped to Russia from southern parts of the USSR such as Uzbekistan, Armenia and Azerbaijain. Fruit was also imported from 'friendly' countries such as Morocco.
- The break-up of the Soviet Union severely disrupted the flow of fruit from former USSR countries to Russia.
- Over the last 5 - 10 years the former supply channels have been replaced by a variety of suppliers. Fruit is shipped to Russia by truck from Europe and the Middle East, as well as by ship from all over the world.
- Russia's increasing demand for imported fruit has meant that self sufficiency in fruit has declined from around 70% in 2000 to 56% in 2005.

Russian Fruit Supply Balance - 000' mt

	Domestic		*Imports*		*Total*
2000	3,973	71%	1,615	29%	5,589
2001	3,737	65%	1,994	35%	5,731
2002	4,419	66%	2,307	34%	6,726
2003	4,384	59%	3,059	41%	7,442
2004	4,861	58%	3,565	42%	8,426
2005	4,919	56%	3,826	44%	8,745

Source: FAO, Goskomstat, Promar Analysis



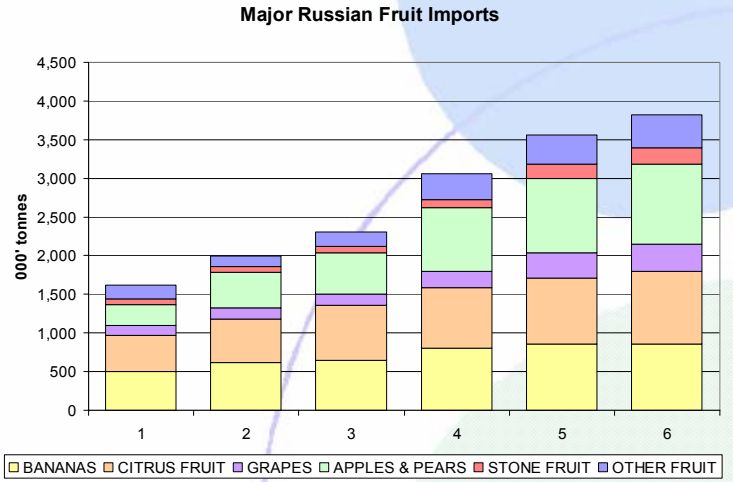
Source: Russian Government Statistics / Promar

- Imports are the fastest growing part of the Russian fruit market. Russia's fruit imports have more than doubled in volume since 2000 and almost quadrupled in value over the same period.
- In volume terms, imports have increased at a CAGR of around 15% pa while in value terms the figure is closer to 25% pa.
- Fruit is imported to Russia all year round, but the bulk of imports occur between September and May. During the Russian summer there is an abundance of local and former USSR products, mainly from the Black sea regions, in the market.
- This local fruit with its low prices and no import tariffs means that, in the words of one importer, *"there is no way imported fruit can compete"*.

Fruit Industry - Imports

Major Products

- In 2005, apples and pears were the largest fruit import category accounting for just over 1,000,000 tonnes or 28% of all fruit imports by volume. Citrus fruits with 940,000 tonnes (25%) and bananas at 850,000 tonnes (22%) were the next largest items. Grapes accounted for 354,000 tonnes or 9% of imports. Stone fruit accounted for a further 200,000 tonnes or 5% of imports.
- Bananas and citrus have traditionally been the largest imported fruit items. However, over the last 5 years both these categories have decreased in importance in terms of share of total imports.
- In contrast, apple and pear imports have grown from around 17% of total imports in 2000, to 27% of imports in 2005.
- Most other fruit categories have remained relatively stable over the same period.



Source: Russian Government Statistics / Promar

Key Products:

- Apples
- Citrus
- Grapes
- Stone Fruit

Key Products - Apples

Overview

- Apples have traditionally been a common part of the Russian diet. Most Russians have access to some land for growing fruit and vegetables and apple trees tend to be common.
- Apples are also grown commercially in the southern parts of Russia. In the Soviet era apples were also supplied by other USSR members such as the Ukraine.
- Russian apple production has increased by around 2%/pa since 2000 and Russia now produces over 2,000,000 tonnes of apples.
- Most Russian apple production tends to be focussed on local red apple varieties and suffers from poor production management and even worse post harvest handling and distribution.
- In 2005 Russians consumed around 22kgs of apples/capita or almost 45% more than the 15kg/capita consumed in 2000. The major growth in apple consumption has come from imported apples.

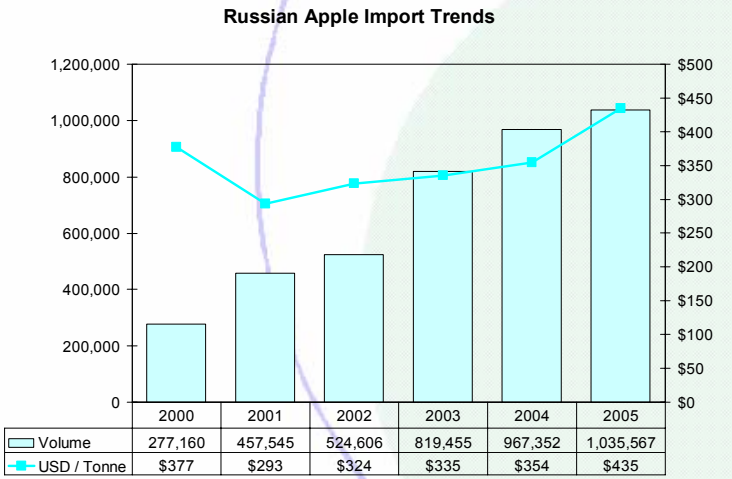
Russian Apple & Pear Supply Balance (000' tonnes)

	2000	2001	2002	2003	2004	2005	CAGR
Imports	277	458	525	819	967	1,036	25%
Domestic	1,925	1,690	2,045	1,767	2,132	2,154	2%
Total	2,202	2,148	2,569	2,587	3,100	3,190	6%

Source: Russian Govt Statistics

Imports

- While domestic apple production has increased slowly over recent years, apple imports have shown an impressive 25% annual growth rate since 2000.
- Imported apples now account for over a third of total Russian apple consumption.
- Over the last few years the prices of imported apples have also increased, from a low of less than US$300 /tonne in 2001 to around US$435 /tonne in 2005.



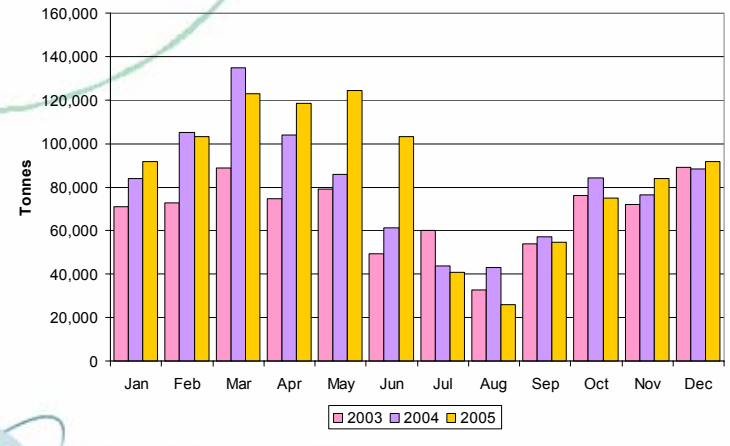
Source: Russian Government Statistics / Promar

Key Products - Apples

Seasonality

- Russian consumers tend to eat apples all year round, although, as with many other fruit types, Russian apple consumption declines during the summer fruit season.
- During the main Russian apple production season, locally produced apples are available in abundant quantities and low prices. Imported apples to tend to be most popular during the spring and early summer period.
- To protect the local apple industry, the Russian Government introduced legislation that places a tariff on apples imported from countries like South Africa and entering Russia after July 1. According to trade, sources this tariff is unavoidable and effectively ends the import season.

Apple Import Seasonality

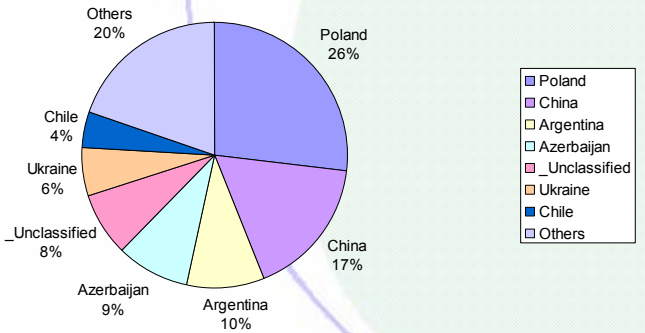


Source: Russian Government Statistics / Promar

Major Suppliers

- Russian buyers source apples from all over the world. According to Russian imports statistics, Russia imported apples from almost 40 countries in 2005.
- While Russia does import from a wide range of suppliers, the top 10 suppliers accounted for almost 90% of the trade.
- In 2005, over 50% of Russia's apple imports came from former Soviet allies such as Poland, Azerbaijan, the Ukraine and Moldavia. In the same year China supplied 17% of Russia's apples. In contrast Southern Hemisphere suppliers provided only 14%.
- South Africa was the 20th largest apple supplier to Russia in 2005 and provided just over 0.25% of Russia's total apple imports.

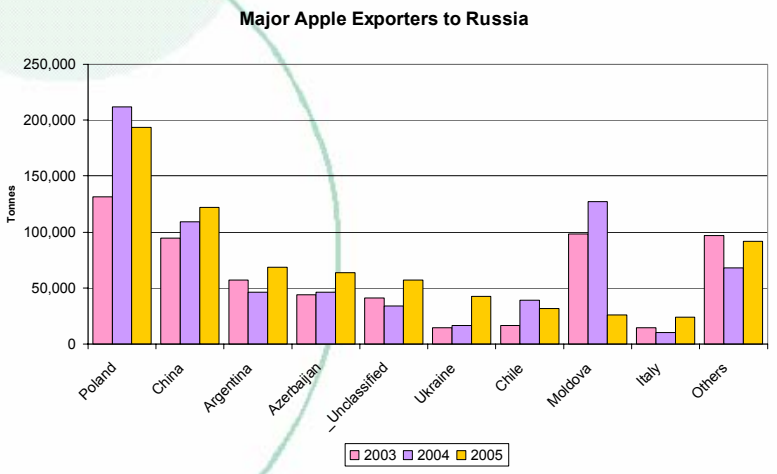
Russian Apple Imports by Source - 2005



Source: Russian Government Statistics / Promar

Key Products - Apples

Major Suppliers cont'd



Source: Russian Government Statistics / Promar

Types and trends

- As well as increasing in volume and value, the Russian apple market is developing rapidly. According to one major Moscow retailer:

  "5 years ago consumers knew two types of apples, red ones and green ones!"

- Today many consumers are able to identify a number of apple varieties.

- The most popular apples in Russia are Granny Smith, Golden Delicious along with Red Delicious, Red Chief and Jonogold For some reason consumers tends to believe green apples are more healthy than red ones.

- Most importers and retailers are simply happy to satisfy consumer demand for standard apple varieties by selling varieties such as Granny Smith, Golden Delicious or Jonogold. However, a few of the upmarket retailers do sell premium apple such as Fuji, Braeburn and even Pink Kiss or Pink Lady.

- Some of the mainstream retailers mentioned that they were able to sell new and less known varieties such as Braeburn or even Pink Lady, provided they were sold for the same (lower) price as the better known apples.

- Other premium retailers were selling small volumes of premium apples such as Pink Lady at very high prices (Rb240 /kg or US$ 9.00/kg)

Key Products - Apples

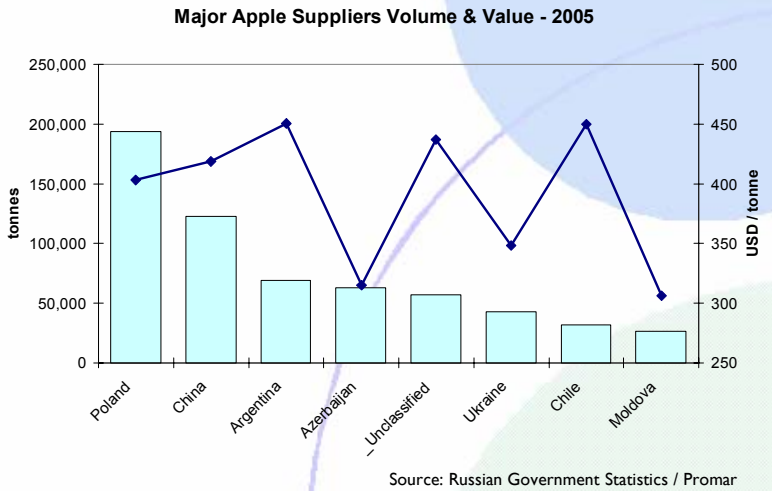
Specifications

- As with all fruit products in Russia, price and quality were the key purchasing criteria. However, with limited specifications to identify quality, most buyers focussed on price.
- There are essentially two categories of apples available on the Russian market. Cheap 'local' apples (typically red) from Russia or countries like Poland, and former USSR, and 'international' apple varieties such as Granny Smith and Red Delicious.
- Russian consumers seem to recognise the difference between 'local' and 'international' apples, but are only now becoming aware of the different 'international' apple varieties. Therefore, the major criteria for apples in Russia are based on appearance and size.
- Russian consumers prefer large apples was a common statement. Apples above 70 mm diameter were generally required.
- Most of the trade believed that consumers judged fruit on appearance and the sign of a good apple was to have good shape, colour and a flawless surface.
- Brand, variety and country of origin for many buyers were unimportant.
- *"In my view neither the country of origin or the variety are important, We will happily substitute a Red Chief for a Red Delicious if the taste and appearance is better"* (Retail Buyer).
- Other buyers would use country of origin as an indication of seasonality and therefore when the products should be at their best. Most buyers were able to quote what time of year they would buy apples from the lowest cost suppliers around the world.
- Quality systems, organic or Bio products were barley recognised, let alone specified for apples.

Key Products - Apples

Pricing

- The pricing of apples in the market is based on the two categories of apple available.
- Local apples are the cheapest and generally retail upto the Rb30 /kg price point.
- Most 'International' imported apples sell in retail supermarkets for around Rb45 - 55/kg. (US$1.75 - 2.10/kg). Prices increase to up to Rb70/kg (US$ 2.70/kg) in convenience or small niche retailers.
- In many instances apples are sold for the same flat price regardless of variety, particularly in markets and small stores. In the St Petersburg markets there were small volumes of Pink Lady apples selling along side Golden Delicious for the same Rb55/kg (US$ 2.10 /kg).
- Major supermarkets tend to provide some differentiation in pricing between apple varieties.
- According to the Russian Government statistics, apples were imported into Russia in 2005 for an average price of around US$410/tonne. Quoted import prices varied from US$306/tonne for apples from Moldavia to almost US$700 for New Zealand apples.
- The chart over, highlights the two apple categories available in the Russian market.



Source: Russian Government Statistics / Promar

- Local apples from countries like Moldavia, Azerbaijan and Ukraine tend to be sold at relatively low prices, while international apple varieties from Chile and Argentina and even China tend to be supplied at higher prices.

N.B. In this report we have used official Russian Government statistics for the import volume and value analysis. While we believe the volume data is relatively accurate, we are less convinced on the accuracy of the value data. In most cases we have tried to use the price data to indicate broad market trends rather than any specific issues.

Key Products - Grapes

Overview

- Grapes have traditionally made up a small percentage of Russian fruit consumption. Most local grapes are produced from Russia's southern regions and former USSR members such as Uzbekistan.
- Russian grapes tend to be local varieties rather than international varieties.
- As with other fruits, Russian grape production has increased slowly over the last few years at around 3%/annum.
- Russia now produces over 325,000 tonnes of grapes.
- Russia is also a major importer of grapes with more than 350,000 tonnes imported in 2005.
- In 2005 Russians consumed around 4.7kg of grapes compared with 2.7 kg/capita in 2000. As with other fruit products, the majority of growth in per capita consumption has come from imported product.

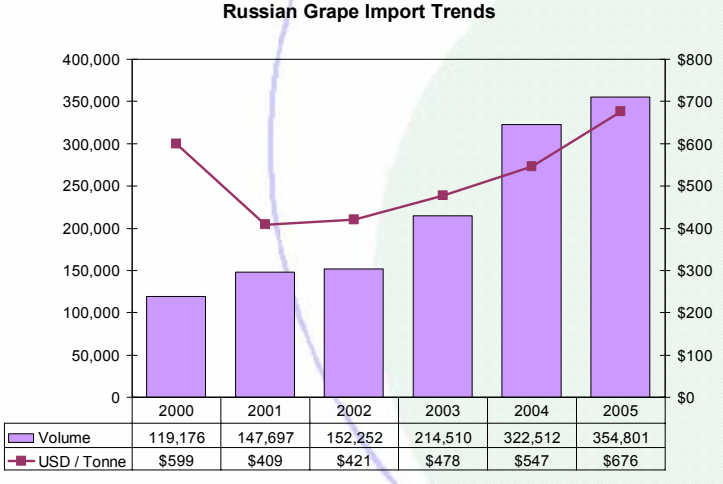
Russian Grape Supply Balance (000' tonnes)

	2000	2001	2002	2003	2004	2005	CAGR
Imports	119	148	152	215	323	355	20%
Domestic	279	235	217	348	318	325	3%
Total	399	383	370	563	641	680	9%

Source: Russian Govt Statistics

Imports

- While domestic grape production has increased slowly over recent years, grape imports have shown a rapid 20% annual growth rate since 2000.
- Imported grapes now account for more than 50% of the Russian market.
- Over the last few years the prices of imported grapes has fluctuated significantly varying from lows of around US$400/tonne in 2001 to around US$670/tonne in 2005.

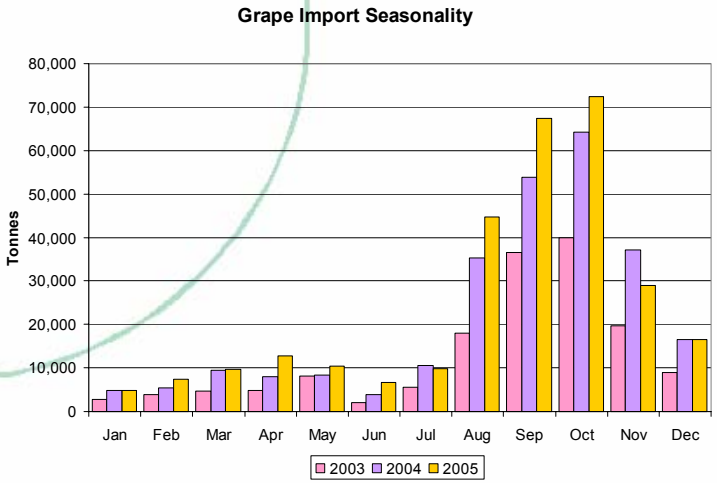


Source: Russian Government Statistics / Promar

Key Products - Grapes

Seasonality

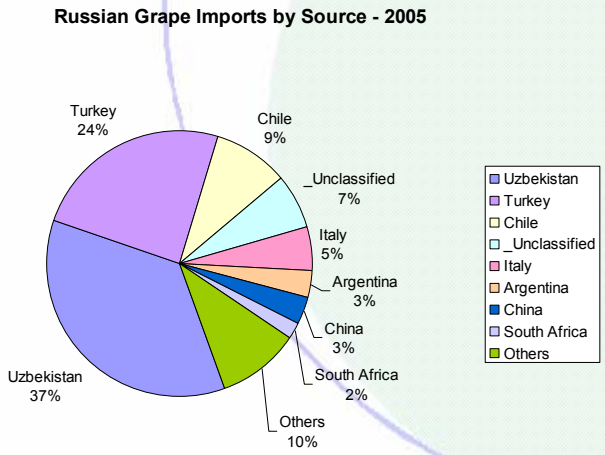
- Consumption of grapes in Russia is highly seasonal with the main consumption time being September - October.
- The main reason for the spike in consumption is the availability of cheap local grapes and grapes from countries like Uzbekistan and Turkey.



Source: Russian Government Statistics / Promar

Major Suppliers

- Russian buyers source grapes from all over the world. According to Russian imports statistics, Russia imported grapes from almost 40 countries in 2005 with 15 of those countries supplying over 1,000 tonnes of product.
- While Russia imports from a wide range of suppliers the trade is highly concentrated on low-cost grape suppliers. For the last 3 years Uzbekistan and Turkey have consistently been the largest suppliers accounting for upto 66% of the total import market.
- With Turkey and Uzbekistan as the major winter suppliers of grapes, Chile and Argentina have positioned themselves as the major summer season grape suppliers.
- In 2005, South Africa accounted for around 2% of Russian grape imports which was down on the 2.8% share in 2004.



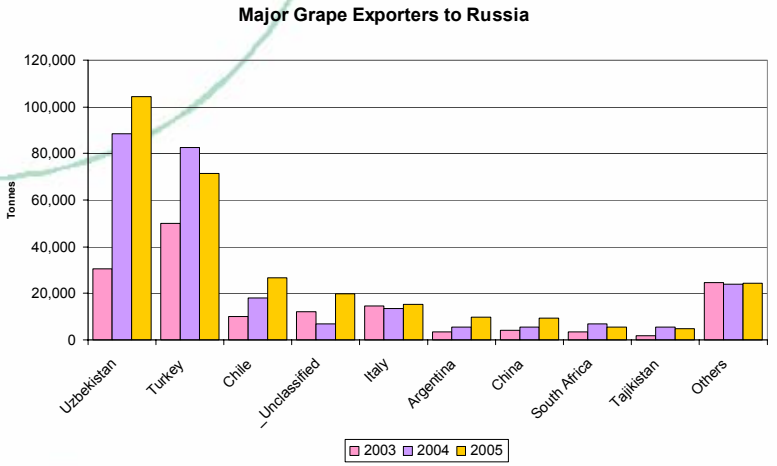
Source: Russian Government Statistics / Promar

promar International

Key Products - Grapes

Major Suppliers cont'd

- Uzbekistan has become a major supplier of grapes to Russia over the last 3 years. Retailers suggested that they were able to purchase Uzbek grapes at less than US$1/kg during the season, which nearly half the price of grapes from Argentina.
- While the quality of Uzbek grapes was recognised as being lower than from other suppliers, the taste and price more than made up for the difference.
- The Uzbek industry is reported to be improving the post harvest handling and distribution of its fruit. Although, one respondent suggested it would take 10 years for the industry to reach the standards of say Argentina,



Source: Russian Government Statistics / Promar

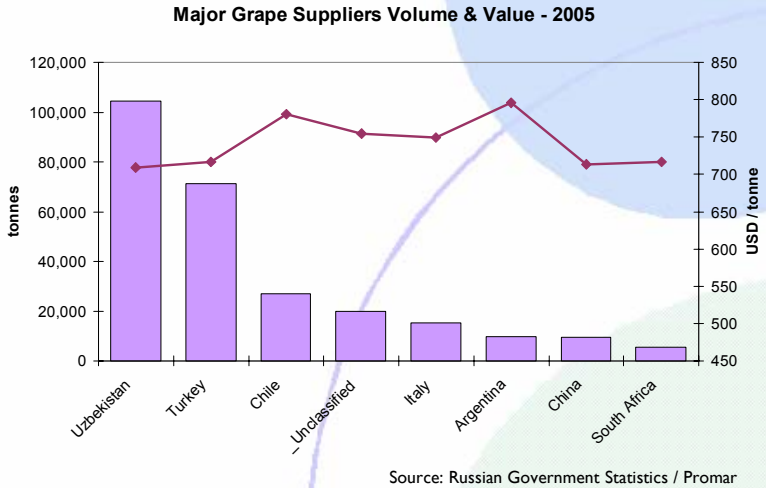
Specifications

- As with many fruit products, Russia's booming market combined with consumers limited product knowledge meant that there were few specifications for grapes.
- *"All types are sold, white, red, seedless, black, but variety does not matter"*. Fruit Importer
- As with other fruit types, large grapes were preferred.
- Many respondents suggested that red grapes were the most popular with consumers along with seedless varieties. Thompson Seedless were commonly mentioned as good variety.
- While most importers stressed the need for taste and appearance, many distributors required 'hard' grapes as an important purchase criteria. The reason for this was that if the grapes were being sent to regional areas they needed to be hard to survive travelling the long distances over poor roads.
- *"Grapes must be hard if they are soft they are no good"*. Fruit Importer.
- Colour was also an important issue with consumers. Green grapes need to be green in colour. Yellow/amber coloured green grapes from Brazil or India were less favoured by consumers.
- Quality systems, organic or Bio products were barley recognised, let alone specified for grapes.

Key Products - Grapes

Pricing

- Pricing for grapes varies considerably with locally produced grapes in season being significantly cheaper than grapes imported from other parts of the world. During the Russian season, retailers stated they were able to buy grapes for less than Rb25/kg (US$1.00/kg).
- In some supermarkets grapes are sold at various price points for the different varieties. In other supermarkets all grapes are sold for the same price point regardless of variety or quality.
- In mid range markets and supermarkets grapes retail for around Rb90 - 100/kg *(US$3.46 - 3.85/kg)*.
- In premium level retailers in Moscow grapes can be seen selling at prices between Rb180 - 240/kg (approx US$6.90 - 9.20) depending on variety.
- The table over, highlights the various import volumes and import prices paid for grapes from Russian's major suppliers. Again, the accuracy of the data at a detailed level is questionable, with Uzbekistan and Turkish grapes reported to be selling at a a relatively high US$ 700 tonne.



Source: Russian Government Statistics / Promar

- Despite the questionable price data, analysis of the Russian import statistics does reflect a number of trends in the market.
- Grapes from 'local' suppliers such as Tajikistan and Turkmenistan were being imported for prices as low as US$600 - 650/tonne.
- Grapes from highly competitive European suppliers like Italy and Spain were being imported for around US$700 - 750/tonne.
- Grapes from major Southern Hemisphere suppliers were imported at around US$800/tonne.
- At the top end of the market, very small volumes of grapes (200t) were imported from the USA at around US$900/tonne.

Key Products - Citrus

Overview

- Although citrus products are not grown in Russia, they have been imported since Soviet times and are well known by consumers.
- In 2005 Russians consumed around 6.5 kg/capita of citrus fruit or almost double the 3.3 kg/capita consumed in 2000. Over the last 5 years citrus imports have grown at a around 12%/year.
- Citrus products are very popular in Russia, particularly during winter which has become the traditional time to eat citrus.

Russian Citrus Supply Balance (000' tonnes)

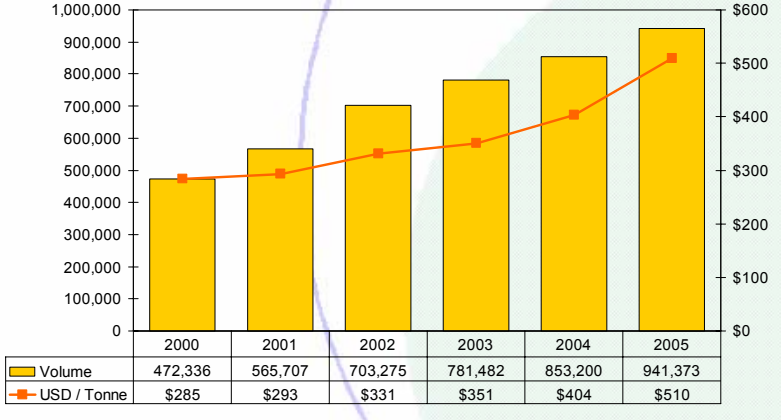
	2000	2001	2002	2003	2004	2005	CAGR
Imports	472	566	703	781	853	941	12%
Domestic	0	0	0	0	0	0	0%
Total	472	566	703	781	853	941	12%

Source: Russian Govt Statistics

Imports

- Russia imports 100% of its citrus requirements due to its unfavourable climate for domestic citrus production.
- Russia traditionally imported citrus fruit from its former USSR partners or from former communist allies such as Morocco.
- As with all fruits, citrus imports have grown over the last 5 years as the Russian economy strengthens.

Russian Citrus Import Trends



	2000	2001	2002	2003	2004	2005
Volume	472,336	565,707	703,275	781,482	853,200	941,373
USD / Tonne	$285	$293	$331	$351	$404	$510

Source: Russian Government Statistics / Promar

Key Products - Citrus

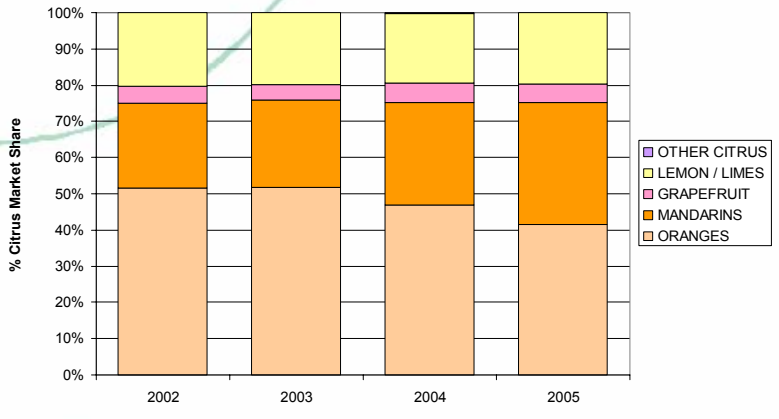
Citrus varieties

- Oranges are the most important citrus category in Russia. In 2000 oranges accounted for 52% of citrus consumption, however, by 2005 this figure had declined to 42%.
- The main reason for the decrease in orange market share has been the increased availability of mandarins in the market. Mandarins are extremely popular in Russia and have increased their share of the citrus market from 23% to 34% over the last 5 years.
- Lemons and limes share of the citrus market has remained constant at around 20% as have grapefruit at around 5%.

Seasonality

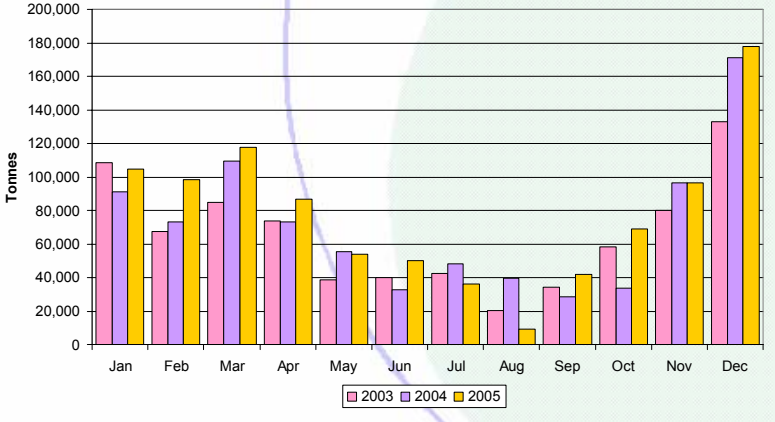
- Overall, citrus consumption is Russia has a moderately seasonal pattern. Most Russian consumers still view citrus products as a winter food.
- The respondents we spoke with suggested they would sell between 2 and 6 times volume of citrus in winter as they would in summer.
- However, increased availability and lower prices in recent years means that citrus are now consumed all year round. Increasing consumer demand for products like fresh orange juice has also driven year round demand for citrus.

Major Citrus Products in Russia



Source: Russian Government Statistics / Promar

Citrus Import Seasonality

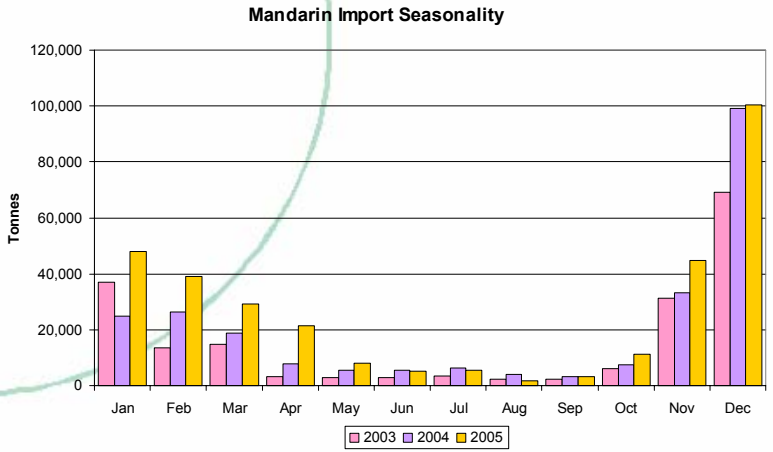


Source: Russian Government Statistics / Promar

Key Products - Citrus

Seasonality cont'd

- The main driver of the citrus category's seasonal demand is mandarin consumption. Mandarins are still viewed as a highly seasonal item in Russia with peak demand occurring around Christmas time.
- For many Russians mandarins are a traditional sign of Christmas.

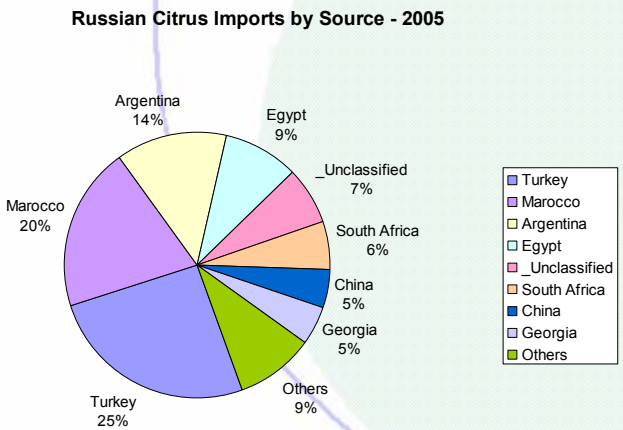


Source: Russian Government Statistics / Promar

Major Suppliers

- The major suppliers of citrus to Russia have been Morocco and Turkey, particularly during the Russian winter.
- In recent years Argentina has grown to be a large summer supplier of citrus to Russia.
- However, Russian importers are increasingly purchasing citrus from all over the world. In the words of one importer:

  "there are not enough mandarins in the world to meet Russian demand."
- In 2005 Russia imported citrus products from over 35 different countries, although over 80% of these were from 6 major suppliers.

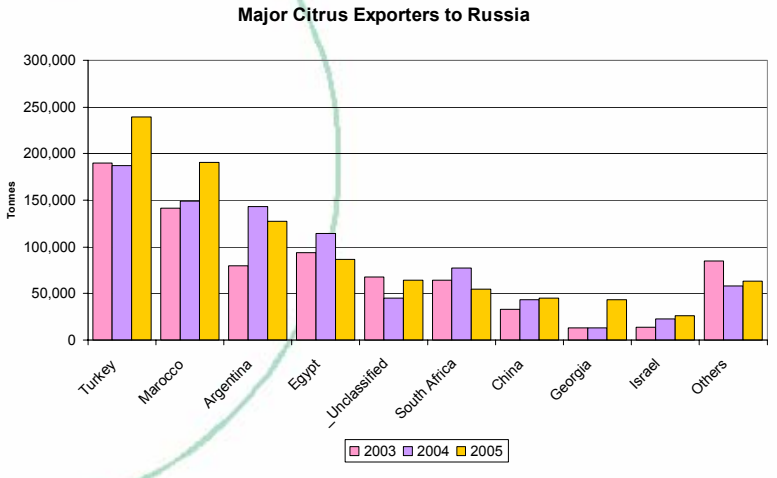


Source: Russian Government Statistics / Promar

Key Products - Citrus

Major Suppliers cont'd

- Countries such as Egypt, Pakistan and Syria were identified as low cost suppliers of citrus to Russia.



Source: Russian Government Statistics / Promar

Types and trends

- As with other types of fruit in the Russian market, consumers are only just becoming aware of different fruit varieties and their attributes.
- Grapefruit was the only citrus category where we obtained any preference from the trade in-terms of variety. For grapefruit, yellow varieties are not popular and so the common requirement was for Star Ruby or other varieties of red grapefruit.
- For oranges, a number of high-end users were able to quote variety names such as Navel, Valencia or Sanguine. However, most respondents replied with a variety is not important - taste and appearance are type answer.

  "If it is an orange it is an orange". Fruit Importer.
- In Moscow and St Petersburg, citrus tended to be eaten by adults and children, In regional areas the main demand for citrus was from parents buying fruit for their children.

Key Products - Citrus

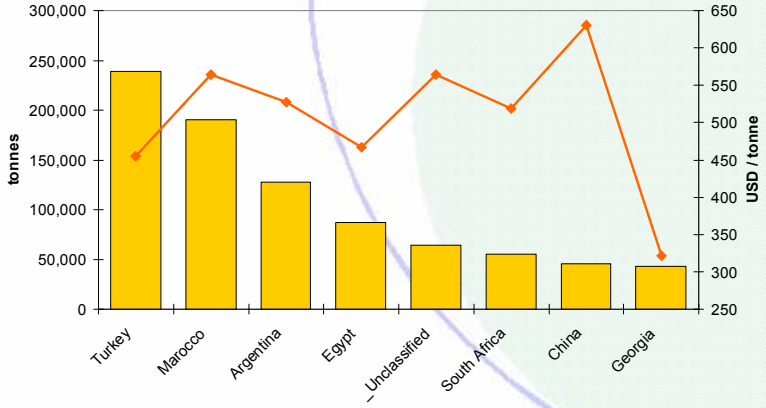
Specifications

- As with other fruit in Russia, respondents suggested relatively few specifications.
- Size was the most common specification with importers and buyers looking for large fruit for retail consumption. Calibre from 48 - 56 were the most preferred in the Moscow region.
- Small fruit were required for juicing and also for sales into regional areas were small fruit were preferred for the lower price.
- Russian buyers would buy category 1 and 2 fruit depending on the final customer and the price.
- While not mentioned explicitly as a requirement for citrus, a number of respondents showed examples of poor fruit that had not kept well. This was seen as a major disadvantage to the importer.

Pricing

- Store inspections in St Petersburg and Moscow during July 2006 showed that in supermarkets, large eating oranges retailed at around Rb38/kg (approx US$1.50/kg). Small juicing oranges sold for around Rb22 - 25 Rb/kg (US$0.85 - 95/kg).
- Large Star Ruby grapefruit retailed for around Rb45/kg (approx US$1.75/kg). Lemons retailed for around Rb34/kg (US$1.30/kg).
- According to Russian Government statistics citrus were imported into Russia in 2005 for an average price of around US$506/tonne.
- Quoted prices varied from US$320/tonne for citrus from Georgia, to over US$630/tonne for Chinese citrus (although this figure seems unusually high). In comparison USA citrus were imported for around US$600/tonne.

Major Citrus Suppliers Volume & Value - 2005



Source: Russian Government Statistics / Promar

Key Products - Stone Fruit

Overview

- Stone fruit have traditionally been grown and consumed in Russia.
- In 2005 Russia produced around 670,000 tonnes of stone fruit. The largest variety in the category is Sour cherries, accounting for 235,000 tonnes or 35% of total production.
- The next largest varieties are plums and cherries at 185,000 (28%) and 110,000 (16%) tonnes respectively. Apricots 82,000 (12%) and peaches/nectarines 55,000 (8%) are the other major varieties.
- Russian stone fruit production has increased by around 4%/year since 2000.
- Domestically produced stone fruit accounts for around 70% of total consumption, although this figure is declining.
- In 2005, Russians consumed around 6 kg of stone fruit/capita compared with 3.5 kg/capita in 2000.

Imports

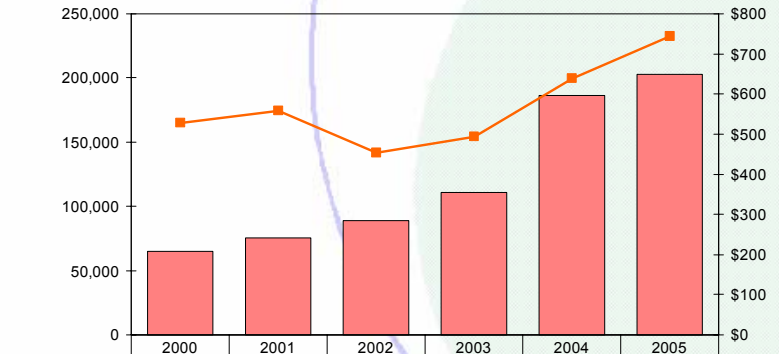
- Stone fruit imports as a percentage of total consumption, have increased from less than 13% in 2000 to almost 30% in 2005.
- While domestic stone fruit production has increased at a comfortable rate, stone fruit imports have shown an impressive 21% annual growth rate since 2000.
- Over the last few years the prices of imported stone fruit have also increased, from a low of around US$530/tonne in 2000 to around US$750/tonne in 2005.

Russian Stone Fruit Supply Balance (000' tonnes)

	2000	2001	2002	2003	2004	2005	CAGR
Imports	65	76	89	111	187	203	21%
Domestic	516	460	518	565	633	667	4%
Total	581	536	606	676	820	870	7%

Source: Russian Govt Statistics

Russian Stone Fruit Import Trends



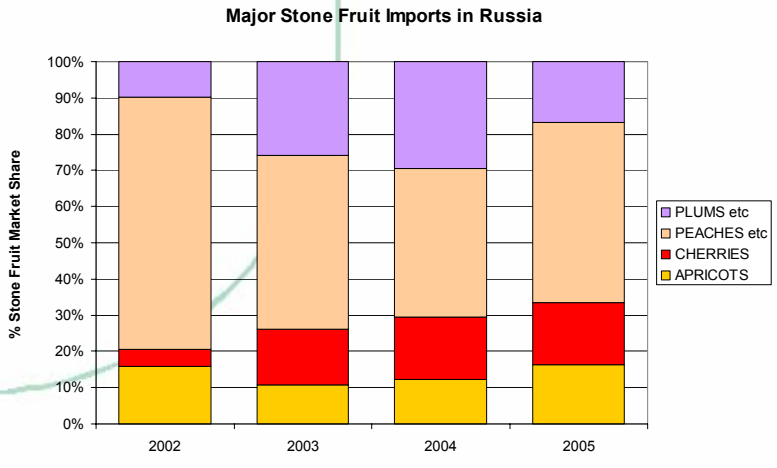
	2000	2001	2002	2003	2004	2005
Volume	64,665	75,592	88,510	110,602	186,639	202,544
USD / Tonne	$527	$559	$453	$493	$638	$744

Source: Russian Government Statistics / Promar

Key Products - Stone Fruit

Imports cont'd

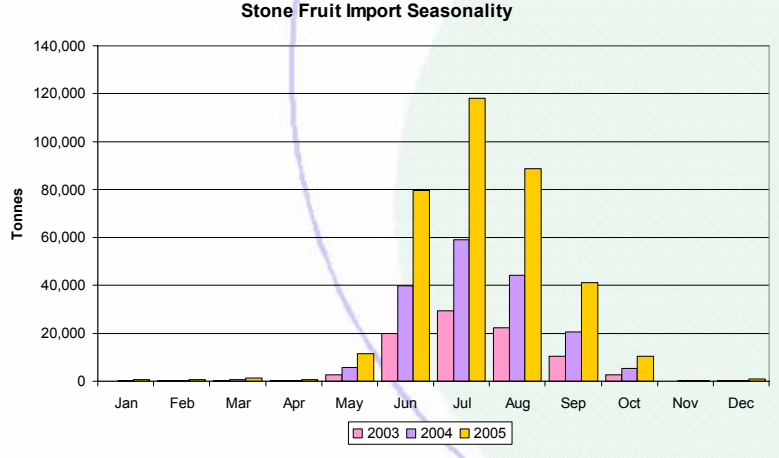
- The composition of the stone fruit imports has varied in recent years but tends to be dominated by peaches/nectarines.
- In 2005, peaches/nectarines accounted for around 50% (100,000 t) of the total stone fruit imports while cherries, plums and apricots accounted for around 17% (33,000 t) each.



Source: Russian Government Statistics / Promar

Seasonality

- Russian consumers tend to eat the majority of their stone fruit during the Russian summer which is also the main Russian production season. Low prices and traditional eating patterns make this the main consumption period.
- Imported Southern Hemisphere stone fruit is less popular with consumers and importers.
- Many importers/distributors claim that stone fruit imported from December to February is too expensive and that consumers do not have the money to buy high cost, out of season fruit.



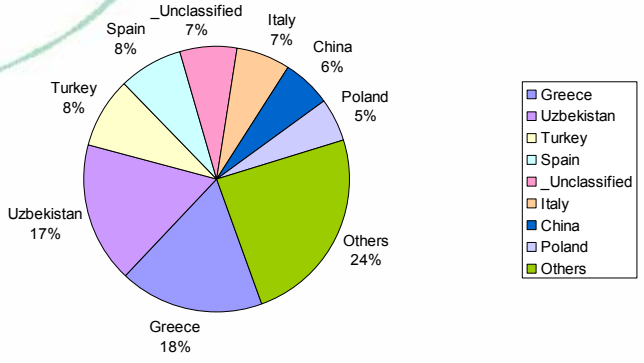
Source: Russian Government Statistics / Promar

Key Products - Stone Fruit

Major Suppliers

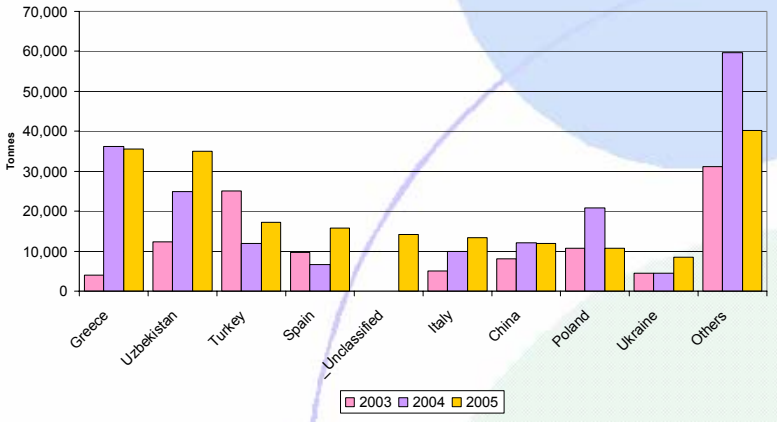
- Russian buyers source stone fruit from all over the world. According to imports statistics, Russia imported over 1,000 tonnes of stone fruit from more than 30 countries in 2005.
- In 2005, 8 countries supplied 75% of Russia's stone fruit requirements, while 15 countries supplied over 95%.
- Almost all stone fruit imports are supplied by Northern Hemisphere countries.
- Chile was the largest Southern Hemisphere exporter to Russia in 2005, supplying a paltry 1,000 tonnes (mainly plums (75%) and some apricots & cherries).

Russian Stone Fruit Imports by Source - 2005



Source: Russian Government Statistics / Promar

Major Stone Fruit Exporters to Russia



Source: Russian Government Statistics / Promar

- In comparison with other fruit products stone fruit imports are relatively fragmented. The above charts highlights this fact with 'other' countries consistently being the largest import source.
- The above chart also highlights rapid growth of Greece as stone fruit supplier to Russia and the consistent growth of exports from Uzbekistan.

Key Products - Stone Fruit

Types and trends

- There is very little product knowledge amongst consumers of stone fruit. There is next to zero awareness or preference for stone fruit varieties with consumers simply buying apricots or cherries or peaches.
- Stone fruit are also very much seen as a summer fruit in Russia.

  "It is not typical for Russians to eat peaches and nectarines at this time (winter)" Fruit Importer

  "Hard to sell expensive stone fruit after Christmas - consumers have no cash!" Major importer
- Some importers have tried to sell stone fruit during the winter, but found that the retailers added too much margin and therefore priced the products out of the market.

  "Supermarkets tend to seek maximum profit from low volume for these items" Fruit Importer.

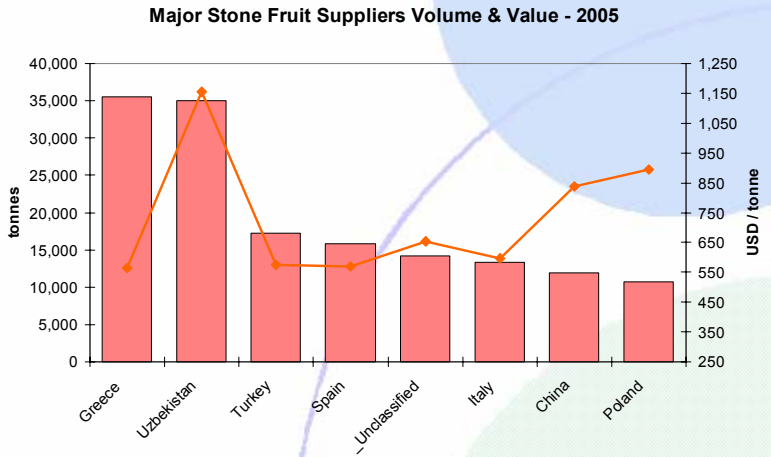
Specifications

- There was very limited discussion of varieties or specifications for any stone fruit products. To most buyers stone fruit was a small category that they could focus limited resources on.
- Size, (the bigger the better, although smaller sizes were acceptable if the price was right) appearance and taste were the major purchasing criteria.

Key Products - Stone Fruit

Pricing

- Store inspections in St Petersburg and Moscow during July 2006 showed that in supermarkets:
  - Apricots (Turkey) retail at around Rb80 - 90/kg (approx US$3.00 - 3.50/kg).
  - Nectarines (Italy) sell for a similar Rb90 - 95/kg (US$3.50 - 3.65/kg).
  - Peaches (Spain, Italy) retail for around Rb90/kg (US$3.50/kg).
  - Cherries (Turkey) sell for around Rb150/kg (US$5.75/kg).



Source: Russian Government Statistics / Promar

- The chart above highlights the major exporters of stone fruit to Russia and the average price of exports for 2005. While most of the numbers seem reasonable, the Uzbek import price appears high and should be treated with caution.
- Russian Government statistics indicate that stone fruit were imported into Russia in 2005 at an average price of around US$740 /tonne. However, for most of the trade with Greece, Turkey and Spain prices varied from US$550 - 600/tonne.

Supply Chain:

- Importers
- Distributors
- Retailers
- Foodservice
- Market Development

Supply Chain - Importers

Overview

- Importers occupy a key role in the supply chain for any imported products in Russia. In the past, import licensing and customs clearance has been widely criticised for its corruption and bureaucracy.
- However, in recent years there have been a number of seemingly legitimate businesses set up to specialise in the import of fruit to Russia. In 2005 the import market appears to be increasingly dominated by corporate, rather than semi-criminal entities.

Market Structure

- There are essentially four types of fruit importers in Russia:
- Major fruit importers
  - The three largest fruit importers in Russia are JFC, Sorus and Sunway. All of these companies are specialist fruit importers and provide a wide range of fruit including bananas into Russia.
  - These companies typically buy and sell 200,000 - 300,000 tonnes of fruit annually.
  - They source products from direct from farms as well as from fruit distributors and marketers such as Dole and Del Monte.
  - In 2005, the three largest importers were estimated to account for around 38% of the fruit import market.
- Large fruit importers
  - These companies tend not to import bananas directly themselves but deal with a range of fruit. Major companies include Globus, Fruit Brothers and Balt Fruit.
  - These companies have started to develop retail packing operations to supply supermarkets.
- Other fruit importers
  - There are a range of other fruit importers in the Russian market.
  - Generally these companies do not organise customs clearance themselves but have this done for them through a specialist service provider.
  - The structure of these companies is very diverse and includes some European joint ventures as well as general fruit importers.
- Ethnically based distribution groups
  - Parts of the Russian fruit market also have a large network of ethnically based fruit importers and retailers. These channels control large volumes of fruit imports from countries such as Azerbaijan and Armenia.
  - These organisations are said to operate at a semi-criminal level.

Supply Chain - Importers

Purchasing systems

- Trading terms vary widely but many importers stated they were able to purchase fruit from a range of suppliers on terms varying from consignment to more than 50% up front.
- Most importers would not accept 100% up front payment and expected significant credit from their suppliers.
- The larger importers have their own conventional ships and are able to buy from a wide range of suppliers on either a FOB or CIF basis.
- Payment systems and processes with importers appears to be a fairly grey area. A number of importers have developed complex systems to minimise tax or other payments.

What Makes a Good Supplier?

Feedback from our interviews identified 5 criteria that Russian importers looked for in a trading partner.

- **Price** - Suppliers must consistently provide competitively priced fruit.
- **Range & Reliability** - Suppliers need to be able to supply a range of products and to actually deliver what was ordered or agreed.
- **Understanding of client needs and expectations** - Suppliers must provide the quality expected by the client (usually this is more visual and taste criteria rather than detailed technical specs).
- **Flexibility in payment** - Suppliers that are able/willing to offer credit and flexible payment terms are preferred.
- **Partnership approach to the market** - The Russian market is highly price volatile. Partners that were willing to share some of the costs if the market collapsed or suffered a short term set-back were highly regarded.

Suppliers of less price competitive products were expected to invest time and knowledge into the business to identify new products and opportunities where sales could be made.

Supply Chain - Importers

Trends

- The largest impact on the Russian fruit import market in the last few years has been the arrival of the large publicly funded fruit importers such as JFC and Sunway.
- These companies have 'corporatised' large parts of the fruit import business in Russia. The large importers are focussed on using their size and economies of scale to dominate the fruit import market.
- Russia's booming fruit imports have also attracted a wide range of traders and other importers into the market. According to one major importer, *"if the market has grown by 5% the number of importers has grown 20%!"*
- The growth in the number of importers means that competition in the market has increased significantly in the last 2 years. A number of importers suggested that margins in the market were decreasingly rapidly.
- The price focussed nature of the Russian market means that it is often seen as a dumping ground for fruit. Importers claim that this is a major cause of price instability in the market.
- Smaller importers, claim that this price instability is exacerbated by the publicly owned fruit companies which frequently over estimate demand and then have to dump product on the market.

Importer Snapshot - Sunway Group

- Sunway Group is the second largest importer and distributor of fruit & vegetables in Russia. In 2005 the Group imported almost 400,000 tonnes of fruit.
- Sunway accounts for around 12% of Russian fruit imports, including a 21% share of banana imports.
- The Sunway Group is a professional well run western style company. The Sunway import department contains a number of young, bilingual, well-educated sales & marketing professionals.
- Sunway has recently funded its expansion plans through public financing arrangements and the company is audited by US accountants Pannell Kerr Forster.
- Sunway Group was started by two Russian businessmen in 1993 trading local fruits from Krasnodar, Moldavia and the Ukraine. Through acquisitions and organic growth the company has developed into a major import and distributor.
- Sunway has now operating subsidiaries in China, Ecuador (Bananas) Spain, Israel and Serbia to secure supplies of fruit.
- Sunway group first imported direct shipments from South Africa in 1995 and at one stage was a panellist distributor for Capespan. Increasing prices from South Africa and overall decreasing competitiveness are quoted as the reasons for the decline in business over the last few years.

Supply Chain - Distributors

Overview

- The fruit distribution business in Russia is highly fragmented with a massive range of companies supplying customers in the major cities and in regional areas.
- A number of larger distributors are also importers. However, many distributors lack the "relationships" or resources to handle the import process themselves and so buy products directly from the major importers.

Market Structure

- There are limited statistics available on the structure of the distribution sector in Russian.
- However the market is basically made up of:
  - Large importers that also have distribution capacity - typified by companies such as Globus and Balt Fruit.
  - Ethnically based trading empires (mainly from Azerbaijan).
  - European or internationally linked specialist distributors such as Flaurus.
  - A wide range of Russian owned fruit distribution companies of various sizes and quality.

Trends

- The major trend impacting fruit distributors has been the growth in retail supermarkets. This has prompted many distributors to develop retail parts of their business to supply bulk fruit to the new Russian and international supermarkets.
- Many distributors have also set up packing/wrapping operations to supply retailers. These pack and wrap operations vary from labour intensive back-yard operations to modern European standard packing plants.
- Distributors claimed that their costs were 20 - 25% higher when supplying supermarkets compared to other wholesalers.
- The growth in supermarkets has eaten into the sales of wholesale markets and small stores which are still the main customers for distributors. Those distributors not supplying supermarkets are already finding business increasingly difficult.
- As with the import market, the growth in the fruit market has prompted new entrants into the market and generally increased competition.
- Rising fuel costs and general consumer inflation is also forcing the costs of distributors up.
- Many distributors in the Moscow and St Petersburg are now looking to supply fruit into the regional areas as a way of growing their businesses without facing the intense competition in the major cities.

South Africa - Buyer Perceptions

Quality

- In the past, South African fruit was clearly recognised as being superior in quality (size, colour and packaging etc) to fruit from Chile or Argentina.
- Some respondents stated that for products like pears, South African category 2 products were still equal to Category 1 products from other countries.
- However, in general, Argentina and Chile are thought to have made significant improvements in the quality of their fruit over the last 3 years. Chile in particular was recognised as supplying high quality fruit that was at least the same quality as that from South Africa.
- On the other hand, a few importers indicated that the changes in the South African industry in recent years had resulted in a lowering of the overall quality of fruit from South Africa.
- While this sentiment was not widely held, the impression in the market is that Chile and Argentine fruit quality has improved and now in many situations matches the quality of South African product.

  *"South Africa **used** to have a big quality advantage"* Major Importer

Strategy

- As well as widespread recognition of the increase in South African prices, there was a common perception among importers that South African exporters lacked a long term vision or strategy for the Russian market.

  "They are not very close - there is no long term plan or programme" Major Fruit Importer.
- The lack of vision and strategy was expressed through South African companies.
- Trading focus with Russia.
- Many importers believed South African companies did not fully understand the market and were only willing to work with Russia on an ad-hoc trading basis.
- Unrealistic price expectations.
- One importer suggested that South African exporters would base their prices on the price they could achieve today in best alternate market rather than a long term price that would ensure an ongoing presence in the Russian market.
- Inflexible trading terms.
- The most common comment was that many South African exporters still expected Russian importers to pay 30 - 50% of the contract value up front.

South Africa - Buyer Perceptions

Strategy cont'd

- According to our feedback this is no longer common practice in the fruit or other many other industries. A number of South Americana and European companies having longer term relationships with Russian importers and a variety of trading terms.
- In some cases South Africa's trading term requirements had created some resentment amongst fruit importers.

  "*SA producers want a high price and a fixed price. We know they work with other countries on a non-fixed price, but demand it from Russia".* Fruit Importer.
- Overall, suppliers from countries like Argentina and Chile seem to be building strong relationships with importers and positioning themselves as a long-term supplier to the Russian market.
- In contrast, many importers remain unsure whether South Africa really wants to be in the Russian market on a long term basis.
- Assuming South African did want to be in the market, there was a strong feeling that it was up to the South Africans to make the first move and not the Russian importers.
- *"Russia does not need South Africa, as a fruit supply source"* was a common theme from many of the importers.
- Having said that there was a general positive attitude to South Africa in the market and the ball is very much in South Africa's court.

  "Future sales will depend on South Africa, there is strong demand for South African product, if the price and quality is good, demand is there!" Major Fruit Importer

South Africa - SWOT

Strengths

- High quality fruit.
- Strong quality systems and environmental credentials.
- Strong, positive trade reputation.
- Similar or better freight rates/transport time to market as other Southern Hemisphere suppliers.

Weaknesses

- Lack of in-depth Russian market knowledge in the industry.
- Perceived lack of commitment to the market.
- Perceived trading mentality vs market development focus.
- Changing exchange are impacting price competitiveness.
- Lack of brand/country awareness and preference at consumer level.
- Lack of unique or differentiated products cf other suppliers.
- Low season suppliers - providing products to Russia during low demand periods.

South Africa - SWOT

Opportunities

- Increasing numbers of affluent Russian consumers.
- Increasing product awareness and differentiation amongst urban based consumers.
- Less supply chain competition in outlying regional areas.
- Growing premium sector of the market.
- Potential to identify and target higher priced supply windows or market niches.
- Russian consumers generally willing to try new products.
- Limited consumer awareness of fruit or country brands in Russia - strong potential to build brand awareness for South African products.

Threats

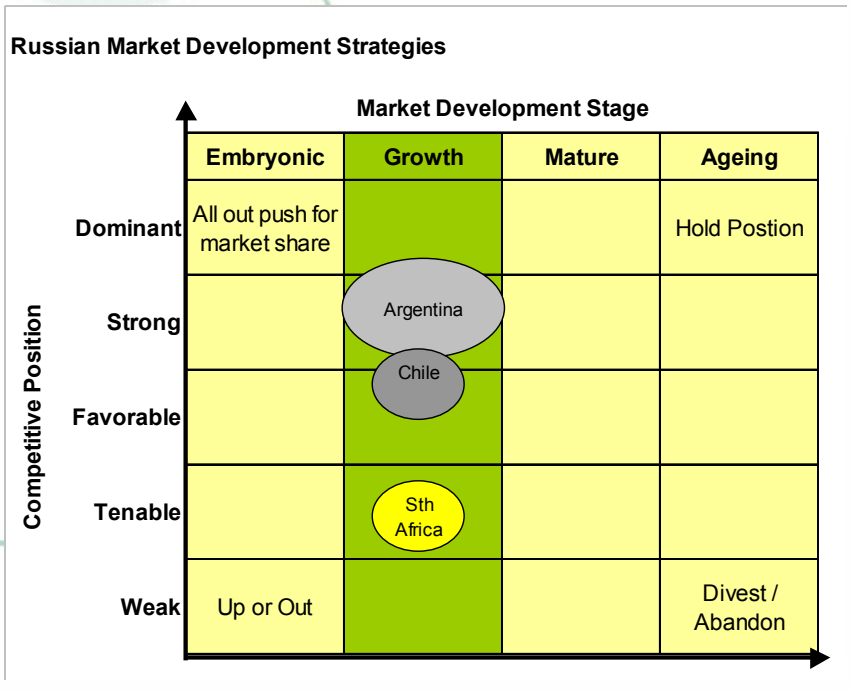
- Low cost competitors from Turkey, Uzbekistan etc expanding their supply windows into Russian market.
- Increased volume and quality of Russian produced apples, grapes and stone fruit.
- Increased price and quality competition from Chile and Argentina.
- Declining exchange rate competitiveness vs other SH producers.
- Slowdown in Russian economic growth.
- Slowdown or reversal of micro economic reform in Russia.

Strategy Development:

- South Africa - Strategy
- South Africa - Industry Role
- South Africa - Russia Vision

South Africa's Strategic Options

- From a theoretical perspective, South Africa's current position in the Russian market can be summarised using a modified ADL matrix, as shown below.



- The ADL matrix highlights the optimum strategies for businesses in a market depending on their competitive position and the stage of market development.

- The Promar research strongly suggests that South Africa is in a less competitive position in the growing Russian market than its nearest competitors, Argentina and Chile.
- Without question, the main game in the Russian fruit market for the foreseeable future will be price driven commodity fruit into mass markets.
- Countries like Argentina and Chile that are able to provide good quality fruit at the lowest prices should see significant growth in their exports to Russia.
- Countries that provide higher cost products with little differentiation from their competitors are likely to see declining market share.
- However, countries in less favourable competitive positions, like South Africa, also have a number of market options open to them.
- South African can either:
  - Withdraw from the market
  - Improve its competitiveness
  - Differentiate / identify a niche
- Each one of these options is discussed in the following pages.

South Africa - Strategy

Withdraw from the market

- Russia is clearly a price focussed market and will continue to be so for some time.
- Depending on the volume of South African fruit 'looking for a home', there may not be any need for the South African industry to supply a highly cost focussed market like Russia.
- If the South African industry is confident that there will be sufficient demand from other higher paying markets over the next 5 - 10 years then there is little point 'investing' in the Russian market at this stage.

Improving competitiveness.

- The main issue impacting South Africa's competitiveness in the market is largely the result of changing external factors, particularly the exchange rate, rather than any internal weaknesses that could be addressed directly by the South African fruit industry.
- It seems unlikely that the fruit industry can impact the Rand exchange rate in the short term at least.
- Therefore, the most effective way for South Africa to improve its competitive position is simply by lowering its prices to match those of the Chilean and Argentine competitors.
- The perceptions of South African fruit in Russia are high and with a competitive price there is no reason why Russia could not become an even larger export market for South Africa.
- The extent to which South African growers and exporters are willing to compete on price in Russia is dependent on range of factors that are beyond the scope of this research.
- However, we can assume that this is not a particularly attractive option to the South African industry at this stage.
- Alternatively, in the long term, South Africa's competitiveness could be improved through a range of measures such as increased differentiation of fruit varieties, improved marketing and decreasing supply chain/production costs.

South Africa - Strategy

Differentiate/Identify a niche

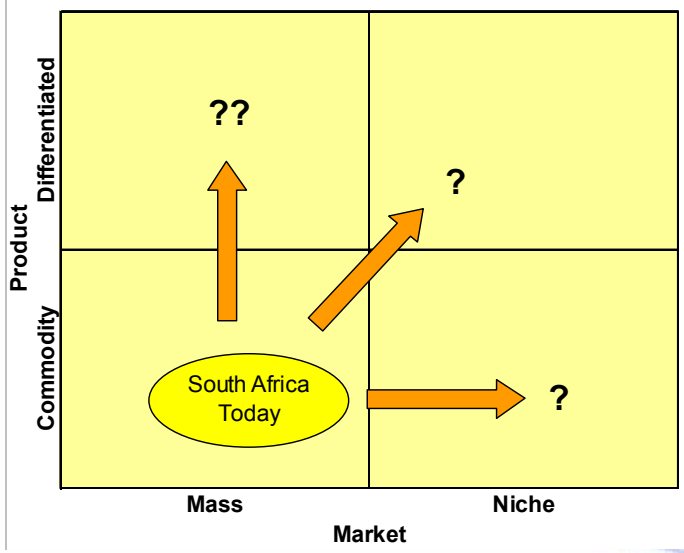
- The size and growth potential of the Russian fruit market suggests that Russia should be a part of the South African fruit industry's long term strategic portfolio of export markets.
- However, given current exchange rates and competitive position, South Africa is unlikely to be interested in competing head-to-head with Chile and Argentina.
- The most logical strategic response from the South African industry is therefore to maintain presence in the Russian market by identifying market niches and differentiating its products.
- The aim of this process is to identify small segments of the market where South African companies can achieve a satisfactory return compared with other markets.
- This policy would allow South African exporters to maintain a foothold in the market which could be exploited given any future improvement in competitive position.
- While the size of the market opportunities identified in this approach may be small at present, the Russian market is growing rapidly. Today's market niche may be a significant market segment in 5 - 10 years time.
- Expanding South Africa's options to differentiate/identify a niche, provides 3 core strategic options as shown in the chart over.

- Essentially South African suppliers can:
  - supply commodity products into (higher value) niche markets.
  - supply differentiated (higher value) products into mass markets. (although this may be a difficult for a number of reasons, including the price sensitive nature of the market and low levels of consumer product knowledge)

or adopt a combination of both

  - supply (higher value) differentiated products into (higher value) niche markets.

Russian Market Options for South Africa



South Africa - Strategy

Niche Markets

- While the majority of the Russian market is highly focussed on price, there is a small but growing premium segment in the retail market, particularly in Moscow and to a lesser extent St Petersburg.
- These buyers are looking for quality and innovation above price. Retailer such as the 'ABC of taste' are typical of this category.
- There are opportunities for South African suppliers to provide differentiated fruit products as well as high quality/value commodity products into these retail markets segments.
- To capture these opportunities South African importers need to:
  - Build relationships with the specialist retailer market segment.
  - Build relationships and trust with legitimate specialist importers/distributors.
  - Build understanding of specialist retailers customers and understand trends and changes in consumer demand.
  - Provide marketing support and other investment to promote new products.
  - Do homework and be prepared to invest time and resources to explore potential products and market niches.

Differentiated Products

- At present, South African fruit in Russia competes head to head with the same fruit varieties from Argentina and Chile.
- Providing alternate fruit varieties into the market is one way of avoiding direct price competition.
- However, in the short term this will be difficult, given most Russian buyers preference for standard fruit varieties and reluctance to pay a premium for new varieties.
- The seasonal basis of fruit supply and the changing nature of the Russian market also provides potential for exporters to differentiate through supply timings or windows.
- Extending the season for Royal Gala apples or providing seedless grapes in particular months were two suggestions provided to us.
- Identifying optimum supply windows and new products could be the best way for South African exporters to avoid direct competition with lower cost suppliers and potentially develop higher value product niches.
- The target market for these supply windows would be the developing retail chains in the major cities, primarily Moscow and St Petersburg. In the short-term at least ,most of the access to these retail chains will be via importers and distributors supplying the retail market.

Differentiated Products cont'd

- Identifying these supply opportunities is a not a simple task and requires exporters to:
  - Be proactive and establish relationships with selected (legitimate) specialist and large importers/distributors.
  - Take the initiative and lead the process to identify profitable product and timing niches. This requires information & expertise from both sides - South African production & industry knowledge combined with Russian market knowledge.
  - Be flexible on trading terms and treat Russian partners with same standards as those in other markets.
  - Build relationships with major retailers and monitor changes towards direct supply.

Market Development Principles

- Regardless of the actual strategy chosen to develop the Russian market, South African exporters need to:
  - Spend time in the market to understand the current situation and consult widely to identify potential partners.
  - Develop a long term vision for the market and be prepared to invest to achieve that goal.
  - Build relationships and trust with selected importers and distributors (partners).
  - Be flexible on trading terms and treat Russian partners with same standards as those in other markets.
  - Build knowledge of end-user requirements in the market (specialist retailers, and their customers) and build relationships with these organisations.

South Africa - Industry Role

Implications for industry development

- The Russian market is already a huge import market and one that has large potential to grow even further. In the future, the market's demand for quality and ability to pay for that quality will only increase.
- At a strategic level, the South African fruit industry has a large opportunity to build on its past experience in the Russia and secure an ongoing share of this large and growing market.
- South African companies have already established strong trade level reputations in the Russian market through past commercial activity.
- As described earlier, the current decline in competitiveness and export volumes is linked to external factors such as exchange rates. South African product quality is still very much respected in the market.
- The feedback from the market suggests that the Russian industry is happy to have South African fruit if it meets market price and quality requirements. However, the Russian market does not need South African fruit.
- The onus for developing the market is therefore very much in the South African court.
- While there are some very good South African companies operating in the Russian market, the overwhelming perception in the Russian market is that South African companies do not trust the Russia and are not particularly committed to building long term business in the market.

Factors for Developing a Trading Relationship

	Russia > South Africa	South Africa > Russia
Awareness	**High** - At a trade level South Africa has a strong history of supplying quality fruit	**High** - Russia has been a rising star on the fruit import market for the last 2-3 years
Interest	**High** - South African fruit is recognised in the trade as being high quality	**Low** - Many South African exporters increasingly view the market as low prices and high risk
Desire	**Low** - Prices for South African fruit are currently significantly higher than those from other SH suppliers	**Low** - as above
Action	**Decreasing** - Russian importers are decreasing their purchases of South African fruit	**Decreasing** - Many South African exporters are focussing on other markets

- The table above summarises the South African interest in developing the Russian market (largely taken from a Russian perspective) as well as the Russian interest in working with South African exporters.
- The table highlights that under the current environment, both parties face difficulties in expanding commercial trade. The South African industry itself appears to have limited desire to see an increase in the trade under existing market conditions.
- The main challenges for the industry under the current climate are therefore to assist South African companies become competitive in Russia as well as positioning South Africa as a major supplier for the future.

South Africa - Industry Role

Implications for industry development cont'd

- In Promar's experience there is limited value promoting a market at an industry level unless there is a strong level of commercial interest in the market to follow-up and capitalise on the industry level activities.
- This fact strongly suggest that as well as developing Russian interest in South African suppliers, any Russian market development activities would need to focus on promoting the Russian market to the South African industry.
- This essentially would require a two pronged market development approach.
  - promotion of the Russian market to South African industry.
  - promotion of the South African industry in the Russia market.

Promotion of the Russian market

Promar has identified two core objectives to support this overall goal. For each objective, we have suggested a number of tactical programs that could be adopted by the South African industry.

- Objective: To increase South African fruit industry's awareness of the current Russian fruit market situation.
  - Dissemination of this, and other, Russian market research to South African exporters and industry sectors.
  - Sponsored visits to South Africa by Russian fruit market experts, providing factual and current view of challenges but also opportunities in the market.
  - Russian market visit (Mission) by selected South African industry sector leaders to Moscow & St Petersburg. (To ensure the South African industry gains an accurate and current and viewpoint of the Russian market and its future potential.)
- Objective: To increase the South African fruit industry's ability to compete in the Russian market.
  - Support for initiatives increasing the overall competitiveness of the South African fruit industry
  - Facilitation of commercial visits by South African exporters to Russia to develop new business and identify market niches etc.
  - Support of commercial visits by Russian importers/retailers to South Africa to develop new business etc.

South Africa - Industry Role

Promotion in the Russian market

Promar has also identified two core objectives to support this overall goal. Again, for each objective, we have suggested a number of tactical programs that could be adopted by the South African industry.

- Objective: To highlight the supply capacity and capabilities of the South African fruit industry to selected Russian market participants.
  - South African fruit technical seminars for selected retailers/importers in Moscow and St Petersburg. (The seminars should aim to position South Africa as a leading exporter by providing expert speakers & 'thought leadership' on relevant fruit marketing or trade issues, rather than simply being a 'hard-sell' for South African fruit.)
  - A low level PR campaign in various fruit trade media highlighting the expertise and leadership of the South African fruit industry.
- Objective: To build strong relationships with 'key influencers' in the Russian fruit market.

'Key influencers' would include senior management/purchasing managers from premium retailers as well as management of premium level importers and distributors.

  - Support of commercial visits by Russian importers/retailers to South Africa to develop new business etc.
  - Educational Mission for selected retailers to visit South Africa to view the industry and particular aspects of modern fruit supply chain management.

Trade Missions

- In this report we have recommended that commercial links with Russian importers and retailers are strengthened through a range of activities including market visits.
- We believe the most effective way this can occur is for individual businesses to work directly with potential partners in Russia. The feedback from the leading Russian importers was strongly biased towards individual company visits and activities rather than group activities such as a Russian buyers group visit to South Africa or vice versa.
- Having said this, we believe there would be value in a South African industry group 'Mission' to Russia. The main aim of this Mission would be to provide South African industry leaders with an upto date view of the market and its future potential. (Ideally the Mission would coincide with other South African promotion activities in Russia such as a technical seminar etc.) The knowledge gained through the visit could then be disseminated by the Mission participants to all levels of the South African industry.

South Africa - Russia Vision

Russia Today

Russia is a declining priority, low margin trading option for a number of South African fruit exporters…..

- Few South African companies in the market. Majority of trade is via ad-hoc and one-off trading with Russian importers or transhipments via Dutch wholesalers.
- High level of distrust in the Russian market from the South African industry. Relatively low level of engagement with Russian industry.
- South African industry has limited knowledge of the Russian market and the Russian industry has limited knowledge of the South African industry.
- Decreasing overall competitiveness especially vs Argentina and Chile. South American quality is increasing with stable prices. South African fruit prices are increasing with stable quality!
- Undifferentiated product offering - high focus on commodity trading.
- No consumer awareness of South African fruit or preference for South African products.
- South Africa has a decreasing share of a growing market.

Russia Tomorrow

Russia is an integral and strategic component of the South African fruit industry's portfolio of international markets…..

- A number of well-established South African companies operating in the market. Majority of trade is via long term supply agreements and includes direct trade with selected retailers.
- Strong levels of trust and understanding between Russian market and the South African industry.
- Ongoing engagement between the two industries at a range of levels and deep understanding between both markets.
- South Africa positioned as a supplier of high quality and value added products to the Russian market.
- Selected consumers have a strong image of South Africa as a supplier of high quality differentiated fruit.
- South Africa has a small but important position in the Russian fruit market and a growing share of fruit imports.